

# THE FREEMAN

IDEAS ON LIBERTY

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## *Voluntarism at Work*

**Voluntary Foreign Aid**

**Grassroots Mentors**

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OCTOBER 1994

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## Better Than Snake Oil

This issue of *The Freeman* emphasizes voluntarism and voluntary solutions to public problems, a topic of great interest to friends of limited government.

When people have a problem to solve, they tend to reach for anything. When we're ill, for example, there's no limit to the remedies some of us are willing to try. Even drinking snake oil can seem better than giving up and doing nothing. Many government programs are adopted on this same basis. Their promoters know that they have failed in the past, but they support them saying, "we've got to try something."

The logic may be weak, but the sentiment behind it has a powerful appeal. The human race is a problem-solving species. If there are public problems to be addressed, people are likely to want to tackle them. If government is the only problem-solving system they see, then they will go on using it, decade after failed decade. The conservatives and libertarians who advise them not to will get no credit for saying "I told you so." They will go on being ignored.

The natural, obvious problem-solving system for those who object to the coercion of the state is voluntarism. Voluntary groups can do—and are doing!—almost everything government is trying to do, and they can do it more sensitively and more efficiently. Friends of liberty needn't be marginalized as ineffective naysayers. Holding high the banner of voluntarism, they can be the real problem-solvers.

It behooves us to learn about the voluntary sector, to understand its prospects, and to take our places as donors and participants in voluntary projects in our local communities.

—JAMES L. PAYNE

*Guest editor for this issue, James L. Payne, is director of Lytton Research and Analysis in Sandpoint, Idaho. He is the author of Costly Returns: The Burdens of the U.S. Tax System, and is writing a book on voluntarism.*

## Voluntarism's Personal Touch: A Letter from Octavia Hill

*Voluntarism is more than a principle. It also incorporates a style of leadership, a way of approaching people and their problems. If you are not going to use force to get people to reform, it tends to follow that you will have to approach them in a friendly manner in order to persuade them. Voluntarism is therefore a sociable, sensitive method of reform: the exact opposite of the impersonal, bureaucratic methods of government.*

*One who emphasized this personal approach was Octavia Hill, the nineteenth-century English reformer. As Peter Clayton describes in this issue's article about her, she was instrumental in founding a number of voluntary enterprises in the social welfare field. In the 1860s she began a program of low-cost housing and social uplift based on personal contact between tenants and the manager. As a housing manager herself, she played the role of befriender, always looking for ways to guide tenants to happier lives. She brought them flowers, arranged outings, set up drama groups, and established a savings program for them.*

*Her method of "friendly visiting" was copied in housing projects in other countries, including the United States. The following excerpt from an 1880 letter to a fellow-worker in Philadelphia is an eloquent statement of the importance of personal involvement in programs of social uplift. The document was unearthed in the Temple University Library by researcher Tina Hummel.*

Tell your fellow-workers from me, will you? how much interested I am to hear of what they have done and are doing. I am satisfied that visiting, such as I gather you have established, which brings those of different classes into real, friendly relations, must in time help to raise those who are fallen low in any sense of the word; from

wealth, little can be hoped; from intercourse, everything. That is to say, everything we have to give seems to communicate itself to those we love and know; if we are true we make them truthful, if faithful, full of faith; if earnest and energetic, earnest and energetic; while they give to us whatever they excel in: patience, energy, hope, industry.

It is only a gradual process, but it is a sure one. Human intercourse in God's own mercy, seems appointed to be the influence strongest of all for moulding character. What we strongly desire to see those we work among become; what we ourselves struggle to be, that or something nearer to it, in time, they will be; and as poverty, drunkenness, dirt, and many other outward evils spring from character, so we can only really teach them by moulding character; first our own, and then insensibly and gradually those of our friends, poor or rich, and submitting in turn to learn from them in all in which they are greater or better than we.

Thus and thus only can we help one another, and your systems and our systems are valuable just in so far as they bring loving and helpful people among those who suffer or sin, and enable the different powers developed in different classes of people to tell on one another. From the beginning of the world it has been so, and we shall find no other way to save and to help. What we are in our homes, our shops, our markets, our school, our whole lives, that we shall be among our poor.

You who seem to have succeeded in developing regular visiting to a great extent, may be happy in remembering that it means the human intercourse, help, and friendliness which will lighten, cheer and purify many a home. I am sure you will scorn all systems if ever they become mere routine, and will feel that each visitor is bound to throw into the regular work the utmost amount of fire and heart, that your wisdom must be penetrated with tenderness, and your mercy far seeing in its wisdom.

# Ending Welfare as They Knew It

by Gerald Wisz

**B**roadway Presbyterian Church, located in uptown New York City near Columbia University, has always had a place in its heart for the poor people in its community. That's why the church started a soup kitchen in 1980. The indigent, many of whom were drug-addicted and incapable of holding down a job, would come to the church to eat.

As time passed, other organizations—including student groups at Columbia and nearby Union Theological Seminary—also volunteered at the soup kitchen. Before long up to 250 people were eating lunch in the church's basement every day. It had become a sprawling volunteer enterprise. But even its most ardent supporters began to realize something was missing.

Chris Fay, a sexton at the church, and Bill Stewart, one of its members, were among the people at Broadway who felt frustrated with the soup kitchen concept. As the program ballooned, they noticed how the people who frequented the church's facility came only to continue in their self-destructive habits. Lunchers made no visible attempt of using the meals to sustain them until they could afford to feed themselves. For them the soup kitchen had become yet

another entitlement; if anything it helped subsidize their dependency.

## Aiming for Self-Reliance

In 1990, Stewart came across "The Miserly Welfare State," an article by Marvin Olasky in *Policy Review*. Olasky showed how the problem with the welfare state is not that it spends too much on the homeless, but that ultimately it does not—and cannot—spend enough. Minimal stipends and perfunctory bureaucratic counseling are about all the welfare state can provide a growing dependent population. These, Olasky wrote, are poor replacements for personal acts of charity that encourage self-reliance. Charity, as earlier philanthropic organizations understood but contemporary ones have largely forgotten, emphasizes practical measures that help people help themselves.

Impressed with the article, Stewart made copies to circulate among the church's board of elders. "The article put into words what many of us were feeling for a long time but couldn't quite articulate or conceive of doing ourselves," said Stewart, who is partner of a shipping-insurance business in midtown. "The responsibility model, instead of the welfare model, is where we knew we had to migrate."

Migrating wasn't easy. The church was divided over the issue, and compromises

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*Mr. Wisz is a financial journalist in New York. He also works as a volunteer with the National Reform Association assisting church groups in setting up job readiness programs for the homeless.*



*Members of the Street Smart team at Broadway Presbyterian Church.*

were made, but in the end most agreed a different approach was needed. The soup kitchen was kept, but with the understanding that it would serve as a gateway to a responsibility-based program for those wanting to change.

Opposition came early from the Presbyterian denomination of which Broadway was a part. The regional and national officers of the Presbyterian Church (U.S.A.) have drifted into a preoccupation with political correctness. Part of Broadway's new plan was Street Smart, a program wherein men visiting the church for food agree to sweep the sidewalks along storefronts on upper Broadway for a minimum wage. If they show up for work on time, stay off substances, and cooperate with the program director, they get raises in 25-cent increments. There's also an opportunity for promotion to supervisor. Visiting presbyters from the denomination condemned the program as "racist" since participants are black.

Summoned before the presbytery, pro-

gram organizer Chris Fay didn't even have to defend himself. John Sligh, one of the Street Smart sweepers, stood before the assembled clergy and elders—many of whom were also black—and told them how the program had taught him the importance of self-sufficiency, which gave him back his self-respect. "He told them we, through the program, probably saved his life," Fay reported. "They didn't have a lot to say after that." Today the New York metropolitan presbytery is among Street Smart's largest financial supporters. In operation for two-and-a-half years, Broadway's program has received only a few thousand dollars of public funds for an art therapy project. The rest is financed by private giving from within and outside the church.

## Rewarding Responsibility

The soup kitchen changed. Now fewer people are fed each day, and the church actively encourages visitors to volunteer in preparing, serving, and cleaning up after

meals. If they do so, they get food to take home. If their help continues with some consistency, they get a stipend. Like Street Smart, the kitchen volunteer program also provides avenues for raises and advancement.

There is a Bible study—distinct from Broadway Community, Inc., the nonprofit umbrella organization that runs the program—where participants receive spiritual nurture. The Bible study, like other aspects of Broadway's outreach, is purely voluntary. If there are serious problems like severe drug addiction, however, participants are referred to a city agency.

Broadway has worked with 15 people this year, and of these Moira Ojeda, the program director, said she thinks "seven are going to make it." Two already have jobs outside the church program. Last year, one received his commercial driver's license and is now driving a truck full time.

Participants in the program draw up a "covenant" with Ojeda. They list goals, what they plan to do to accomplish them, and report to Ojeda periodically to review

their progress. The covenants are signed, and are expected to be kept. "Once progress is made in achieving a goal, and reported to me and the group at large, we move on to the next one, which is built on the previous one," Ojeda said. What state welfare office, even with all the "two-years-and-out" talk, does this?

Teaching responsibility step-by-step has worked. The numbers are small, but the change in lives seems permanent. But Bill Stewart is not too concerned about the numbers right now.

"While we're sure we won't succeed with everyone, we're sure we'll succeed with many," he said of the two-and-half year-old program. "We're not trying to solve society's problems, but we're trying to develop a model that succeeds with people willing to make a change in their lives—to lift themselves out of alcohol, drugs, degradation, and despair and come back into a community of family, friends, and the working world. If we can point to this and say that it works, we'll spread it as wide and as far as we can." □

## The Meaning of Life

**W**ithout a basis for love, respect, and friendship, the needy person is soon regarded as a puppet or a millstone around one's neck. Unless it is voluntary, even a mother's love in caring for an invalid child cannot exist. Aged persons and others who have come to depend for their survival upon the state's power of confiscation become merely numbers in the confused statistics of political bureaus. Statistics and bureaus have the capacity for neither love nor charity.

—LEONARD E. READ, "Victims of Social Leveling," 1953

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# Grassroots Mentors

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by Robert L. Woodson

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**A**lbert Einstein once gave us this simple maxim: “A problem can never be solved by thinking on the same level that produced it.” The crisis that now exists throughout the nation—most acutely in inner-city districts and other low-income areas—demands a new level of thought, beyond the policy talk that has, in part, created the problem.

We are facing no less than the demise of the civil society of our nation. From a staggering rise in violent crime to a steadily rising rate of teen pregnancies and rampant drug abuse, we are witnessing the effects of the erosion of our country’s sustaining moral foundation. News stories inform us that these trends toward civil disintegration exist within all economic strata. However, they have taken the greatest toll in our poorest communities, which lack the buffers of economic security and other elements of stability that exist in middle- and upper-income areas.

Government’s “response” in low-income areas has been to create a gargantuan bureaucracy of programs and agencies whose goal is to treat the effects of poverty rather than to boost the poor to self-sufficiency. Yet, if we have learned anything from a thirty-year, three-trillion dollar experiment in such damage control, it is that no combination of programs and policies has the power to eradicate these problems. Policy analysts on all sides are aware of this. As a

friend of mine once remarked, “There are two types of people: Those who think the programs aren’t working and want to reform or terminate them, and those who think the programs aren’t working and want to expand them.”

The motivation of those who wish to expand government efforts is not difficult to discern, given that various programs make up what is now a multi-billion-dollar poverty industry which absorbs a full seventy percent of all funds designated to help the poor. Yet those who would terminate a system that has been unproductive or counterproductive must also rethink their options. To say that we should cease our conventional response to poverty should not mean that we should do nothing at all.

## Changing Personal Values

We must face the fact that the greatest problems that besiege our nation are, at their root, the result of behavioral choices made by individuals. In the words of a former Washington, D.C., health commissioner: “Thirty thousand blacks and Hispanics die needlessly every year because of the chances they take and the choices they make.” The fact that so many young people make these tragic choices is evidence of the absence of a clear set of principles and morals that should guide their decisions. Rebuilding a foundation of values is the key to reversing the trend toward social disintegration.

The capacity to restore constructive values does exist. In the same neighborhoods

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*Mr. Woodson is president of the National Center for Neighborhood Enterprise, a voluntary organization that promotes inner-city self-help projects.*

that are most afflicted, there are individuals who, in spite of facing the same odds, have led their lives in accordance with a clear set of values and principles. Throughout the nation, hundreds of such mentors have proven the power of positive example. Their daily lives are a witness to such values as honesty, respect for life, personal responsibility, and sacrifice. In a public-housing development, for example, one resident has forgone meals to purchase thrift-store toys to equip the safe-house she has created for children of her community. On streets ridden with gang warfare, a man walks day after day, seeking youths who will respond to his call for an end to violence. These neighborhood leaders have raised up young protégés who, in turn, perpetuate a personal outreach to others in the community.

Social workers and therapists employ strategies such as environmental modification or chemical treatment to change the behavior of their clients, yet the results are nearly always temporary. Recent reports have revealed that the recidivism rate for detainees at boot camps (which many pols have celebrated as an "answer" to youth crime) is as high as 60 percent. After treatment at a high-cost therapy center in a New York resort town, one youth who had previously killed a cab driver simply "walked," returned to Washington, and committed a second murder just blocks away from his first.

Grassroots leaders are committed for the long run and are not concerned with "perishable" solutions. Their goal is nothing short of conversion. Through continual effort and consistent example they have reached the hearts of those they serve, changing the way they view their lives and the world. One case in point is a drug-abuse program coordinated in San Antonio, Texas, by a former drug addict, Freddie Garcia, which has redirected the lives of more than 13,000 substance abusers—most of them hard-core addicts with addictions that had lasted for as long as twenty years. For these individuals and their families, it was clear that Freddie, not Freud, held the answer.

## No Time to Turn Away

As inspiring as such grassroots champions may be, their accomplishments have not come easily. The traditional neighborhood-based institutions of support have not been held in a pristine state throughout three decades of government experimentation. The functions of stabilizing community entities have been undermined by policies that have, in effect, rewarded social deviance, creating, through their regulations, an environment that has actually been hostile to such practices as saving, work, and family formation.

Those who advocate the termination of government programs for low-income people say cavalierly that they should rely on the agents of support that have traditionally served the poor—families, churches, and neighborhood associations. Having spoken, they often simply wash their hands of the situation and turn away. The knowledge that grassroots activists can succeed where government programs have failed comes with a corresponding responsibility to support the neighborhood leaders who can effectively address their communities' problems. This is not a time for benevolent non-intervention.

If we can catalyze a reversal of the social disintegration in our most afflicted neighborhoods, our nation as a whole will have hope of renewal. For the strategies and principles practiced by activists in inner-city neighborhoods can be adapted to communities of all income levels. Recently, for example, a wealthy colleague confided that when his own son became addicted to drugs, although teams of therapists and professionals could do nothing to help him, a simple grassroots leader was able to reach him and help him to turn his life around.

Reclaiming our culture is a spirit-based science, and its laboratories are the community-based initiatives that are, even now, bringing health where there was once only distress. We simply cannot afford to sit passively, ignoring our responsibility to those who are at the vanguard of revitalization. □

# What Makes Entrepreneurs Tick?

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by Gary S. Williams

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**I**t seems it has always been hard times in southeastern Ohio. When the glacier stopped just short of the region several million years ago, it defined the economic future. It left the region with beautiful hills, but there was a flip-side to this blessing. The hills broke up the landscape so that only small-scale development was possible. Consequently the region has lagged behind economically, even though it was the first part of the state to be settled.

Hardship to one, however, may represent opportunity to another. It is true that unemployment rates have been high in the region, particularly now that many of the natural resource-based industries are in decline. But some enterprising individuals have seen this as a place of unfettered possibilities where a lack of restriction and a welcoming of any enterprise makes it a place where dreams can come true.

The entrepreneurs profiled here have succeeded through the strength of their own merit and initiative without outside help. In fact, they have overcome bureaucratic obstacles in the pursuit of their vision. And while their stories are regional in character, the principles involved are universal.

## Zoned Out of Cleveland

For sportswear manufacturer Alan Marcossan, southeastern Ohio offered an un-

hindered opportunity to pursue his dream. Marcossan, 43, is the owner of Good Stuff sportswear. He moved to Woodsfield (Monroe County) in 1985, after his home-based mail-order business was turned in for a zoning violation in suburban Cleveland.

Alan got into sportswear because of a lifelong talent and passion for bicycle racing. The Amateur Bicycle League of America named him Best-All-Around Rider in 1971, and he just missed making the Olympic cycling team in 1972. Many serious bicycling enthusiasts wind up in bicycle-related jobs, but Alan jokes that, "I decided I was going to try and be normal." After graduating from Michigan State with a degree in engineering, he took a job in electrical engineering. "It was fascinating for about ten minutes," he says of the job, "after that the biggest problem was staying awake." He quit after three months.

He next found employment at a ski shop, where he taught cross-country skiing and sold equipment. He was not overly fond of this job either but it gave him time to race and he concedes that he "learned about retailing and the business picture" from this experience.

Alan began making his own cycling clothes for races and found he had a knack

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*Mr. Williams operates a bookmobile service in southeastern Ohio.*

for it. In 1976, he started making clothes for others as a hobby, liked the feeling, and soon expanded his efforts. In 1980, he was able to quit the ski shop, although he still had to go back seasonally for a few years. He might have gone on this way indefinitely except that an overzealous neighbor noticed the UPS van making frequent fabric deliveries to Alan's apartment and turned him in for violating the zoning law.

City officials told Alan he had four weeks to get out or quit his business. He rented a storefront in Cleveland, but paying two expensive rents for his home and business was a losing proposition. Alan saw himself faced with a choice of "downtown or way out in the country."

In 1985, Alan relocated to southeastern Ohio. While visiting relatives in the region, he had been impressed by the hills that offered a vigorous challenge to bicycle training. He also found that the economic climate was receptive to his entrepreneurship. He was able to purchase a house with a five-year mortgage just two blocks from the county courthouse, with no restrictions on working out of the home. A recently closed shirt factory had left a large pool of skilled laborers.

Since the move, his business has grown steadily to the point where Good Stuff sportswear now employs 13 full-time workers and expects to gross a half-million dollars in sales this year. The community has welcomed Alan and he returns the favor by sponsoring races and tours that bring people to the area.

Of his livelihood Alan says, "There's nothing else I'd rather do. I've never handled authority figures very well, but with customers, you're on an equal footing. And selling something that you did gives more satisfaction than a paycheck. A lot of the time I forget the purpose is to make money—the doing it is the most important thing. Free trade is at least more immediate and tangible and certainly more gratifying than anything I've done. I'm not sure whether fact follows philosophy or vice versa, but I'm doing what I do because I could figure out no other way to do it."

## Bringing a Farm Back to Life

What Launny Kramer wants to do is make his 170-acre farm in Washington County "virtually self-sufficient." Kramer, 40, grew up on a farm in eastern Ohio. He believes his rural upbringing was "the driving force" that brought him back to the land, but his plans took a circuitous route.

After high school, Launny enlisted in the Navy, where he spent several years, including a tour of duty in Vietnam. A specialist in helicopter electrical repair, he found work in Philadelphia after leaving the service. There he and his wife, Lucy, started a family that eventually grew to nine children: eight sons and a daughter.

But city life didn't suit the Kramers and they found it difficult to find anyone who would rent to such a large family. In 1988, they purchased a rundown farmhouse near Lower Salem on land that hadn't been farmed in thirty years. Launny had left a lucrative field to move to a region of high unemployment, a risk since regular income would be needed to get a farm operable. But with Lucy's encouragement, he made the leap.

Launny found work as an independent coal truck driver, but a series of over-weight citations and major repair problems made this a losing proposition as the truck was often off the road. He was between jobs when Lucy, pregnant with their ninth child, developed complications that required medical attention. Health clinic officials assumed the Kramers were on welfare and were surprised when Launny said he would pay the bills himself. Their reaction was to accuse the Kramers of child endangerment and to threaten to take custody of the children unless the family went on public assistance.

The incident left Launny with a bitter aftertaste. "We brought these children into the world and we were going to take care of them," he says. "The threat of being forced to accept welfare was a scary proposition—government intervention at its very worst. They want to get people dependent on them and take away their means of making it on their own. They just justify their existence

by making regulations. You know, sooner or later, a parasite will kill its host.”

What saved Launny from public assistance was finding a job as a replacement worker at Ravenswood Aluminum. The West Virginia plant was embroiled in a bitter strike and was hiring to replace striking workers. Launny took this dangerous assignment and when the strike was settled after 20 months, he was one of the replacement workers who was kept on. Returning strikers have been hostile to Launny—his tires were slashed a few months ago—but he shrugs it off. “I wouldn’t be any better off if they liked me,” he says, “and I want to work there until the farm is paid off.”

When the discussion returns to his farm, Launny becomes animated as he describes his plans. The jobs he hopes to create are for his children. “I want to diversify for however many of my sons want to join in.” Currently he has beef cattle, corn, and fruit trees, and has plans to get into aquaculture and dairy farming. He would like to have a partner who will put up venture capital in return for a slow but steady rate of return. As he says, “With a partner, it would go faster if I didn’t have to be the artist and the backer at the same time.”

Launny thinks of farming as a creative undertaking. “It’s like poetry,” he says, “taking a place that’s almost dead and bringing it back to life. I came here with a certain amount of faith that I could do it, although there were periods of doubt.” He likens his experience to that of novelist Tom Clancy, who has said that the only reason he was successful in his writing career was that he didn’t know it couldn’t be done. “You have to make your opportunities and be willing to pioneer a path,” Launny concludes. “I came here with the intention of farming full-time, but I knew it would take a long time. But I’ll be virtually self-sufficient in time and I know I can do it.”

## A Birdbath for Indoor Plumbing

Ron and Debbie Pruitt relocated to southeastern Ohio in 1980 to pursue a self-

sufficient lifestyle. Ron quit his job as a steelworker in Cleveland and the couple bought a 53-acre tract in Monroe County. They got the basement of their log cabin covered over on Thanksgiving Day the first year, and with the help of neighbors they soon became adept at gardening, canning, hunting, and firewood cutting.

In the spirit of Thoreau, the Pruitts made themselves wealthy by keeping their wants few. But they needed cash for such expenses as their twice-yearly shopping trip for bulk groceries. Ron found employment in a government-sponsored job training program but found the experience distasteful. He left the program vowing, “If I couldn’t do better than that on my own, then I’d starve.”

Ron and Debbie then became chimney sweeps, which gave them a seasonal income. But it was while building his own chimney that Ron discovered his true calling. He became fascinated with stone work, and with the aid of an antique stone mallet purchased at a flea market, he began sculpting. His first effort was a sandstone birdbath that took nearly 200 hours to complete. It won a prize at a local craft show and sold almost immediately.

Since then, Ron, age 39, has gone on to different kinds of stone and varied subject material. The self-taught artist has come to specialize in mythic figures and has recently completed a mermaid and a dragon. Ron’s larger works sell for several thousand dollars and he is busy enough that the couple’s chimney sweeping days are over. Their finances are still precarious and subject, of course, to the vagaries of the art marketplace. But in the past few years the Pruitts have been able to purchase a Harley-Davidson motorcycle for Debbie (to match Ron’s), and they have installed indoor plumbing in their home.

The Pruitts have made some sales to public agencies but generally disdain grant money and most government projects. Ron maintains that bureaucrats will “buy modern art with government money but they wouldn’t put it in their back yard.” Debbie puts it more succinctly: “People know what’s good and they buy quality.”



*Sculptor Ron Pruitt selects a stone from his stockpile.*

## Just Do or Die

The spirit of entrepreneurship is not limited to people moving into the region, as Dean Carpenter of Washington County illustrates. He is the owner of Carpenter's Woods, a wooden toy-making business he started after he lost his job as a coal miner.

When Carpenter, 38, was hired in the mines in 1975, he was told his job would last until retirement, but he observes that "from the way they operated, I knew it couldn't last." When he was laid off 12 years later, the operation he worked for had shrunk from 1,600 employees to fewer than 200.

While he was employed in the region's largest industry, Dean had indulged his hobby of woodworking by purchasing a table saw, band saw, and other equipment. He had made wooden toys and even sold a

few to Hallmark. When he lost his job and inquired about unemployment benefits, he found out he was already considered a business and could not receive unemployment unless he sold his wood-working equipment.

Looking back on this, Dean observes, "I wasn't ready to be laid off—no one is—it's just do or die. But if they'd have given me unemployment, I might have gotten fat and lazy, so I never signed up for anything. It kinda made me mad then but now I wouldn't go back to the mines if they called me."

So Dean chose to support his wife and four children with his own business. He soon discovered that "there's a big step between crafting and manufacturing—between tinkering and making a living. I just had to learn things that nobody could tell me."

Dean set up shop in a former one-room

schoolhouse on his property and at one point was making 140 different kinds of wooden toys. To market his products, he rented storefront space in the nearby river town of Marietta. Business was precarious, for the most part, but during Marietta's big Sternwheel Festival, over 8,300 people passed through his store and he sold out of wooden boat toys. This led to his decision to specialize in boats and to sell directly to gift shops. His biggest customer now is the Delta Queen boat line.

Today, Carpenter's Woods no longer has a storefront, still has difficulty getting fi-

nancing, and is down to three full-time employees from a high of five. But as he finishes an order of 140 boats that are to be shipped to New Orleans the next day, Dean Carpenter announces, "I'm gonna stick with it."

What makes an entrepreneur? As these profiles show, part of it is having a dream, and another part is fighting city hall. But perhaps the most important—and business schools haven't found a way to measure it—is willpower, sticking with the dream against the odds. □

*Back in print!*

## ON FREEDOM AND FREE ENTERPRISE

*Essays in Honor of Ludwig von Mises*

Mary Sennholz, Editor

If Carl Menger may be called the father of the Austrian School of economic thought, Ludwig von Mises is his most famous descendant. With his great courage and power of reasoning he counterattacked the forces of socialism and interventionism, always bearing the brunt of the battle. For nearly seventy years he was the rallying-point for the forces of freedom and free enterprise, and for the courageous remnants of classical liberalism.

Ludwig von Mises was born on September 29, 1881, in Lemberg in what was then Austria-Hungary. On February 20, 1906, the University of Vienna conferred upon him the degree of Doctor of Law and Social Sciences. In commemoration of the fiftieth anniversary of this event in the life of Ludwig von Mises some of his friends and disciples prepared an enduring *Festschrift*, the title of which indicates his greatest concern: freedom and free enterprise.

The collection begins with three scholarly tributes to Mises and his work, and continues with seventeen essays organized under the headings *On the Nature of Man and Government*, *On Scientific Method*, *The Economics of Free Enterprise*, *The Hampered Market Economy*, and *On Socialism*. Contributors include: Carlo Antoni, Faustino Ballvé, Louis Baudin, Percy L. Greaves, Jr., F. A. Harper, F.A. Hayek, Henry Hazlitt, W.H. Hutt, Bertrand de Jouvenel, L.M. Lachmann, Fritz Machlup, William H. Peterson, W.E. Rappard, Leonard E. Read, Wilhelm Röpke, Murray N. Rothbard, Jacques Rueff, Hans F. Sennholz, and Louis M. Spadaro.

In this new edition, Mary Sennholz has updated pertinent biographical and bibliographical information, while retaining intact the timeless contributions to this superb collection.

319 pages + index

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# Beyond the Invisible Hand

by Haven Bradford Gow

**K**en Chang, manager of the 7-Eleven store in Mt. Prospect, Illinois, recently made a courageous decision that is costing him money. Because he has moral objections to gambling, he has removed his store's lottery machine and no longer is selling lottery tickets. A few years back, Mr. Chang also courageously removed from his store all pornographic publications, even though his move costs him an estimated \$10,000 per year in income.

According to Robert Stuart, chairman emeritus of the National Can Corporation and past president of the Chicago Crime Commission, companies and corporations exist not simply to make profits; the owners, managers, and employees of a business also must contribute to the betterment of society. Employers and employees must exercise moral and social responsibility and practice such values as courtesy, kindness, honesty, decency, moral courage, justice, fair play, and the Golden Rule of treating others the way we would like to be treated.

Dennis McCann, professor of religious studies at DePaul University in Chicago,

echoes Stuart's observation. "Religion definitely has a role in business," he states. "In fact, it is essential. There is no set of economic organizations that are not ultimately dependent on religious values."

Father Oliver Williams, co-director of Notre Dame's Center for Ethics & Religious Values in Business, also insists that a business can be morally and socially responsible and, at the same time, make a profit. He declares: "Companies are still in the position to think of religion and ethics as well as keeping employees paid. It's still possible."

In December 1993, Joe Tonos Jewelers in Greenville, Mississippi, placed an advertisement in the *Delta Democrat Times* which set forth its business and ethical principles. The advertisement affirmed:

We further pledge to you in the years to come the following: To do our share in promoting all activities that are for the good of this community; to conduct ourselves in a professional manner and perform competently at all times; to deserve the patronage of this community by rendering service based upon the highest standards of truth and honor; to earn, establish and maintain a reputation for giving maximum values at a fair price; to render prompt and efficient service to our customers; to adjust promptly any cause of dissatisfaction and endeavor to make every purchaser a satisfied customer; to advise every customer in regard to each purchase as we would wish to be advised were we the customer; to make every transaction a stone in the foundation of confidence, without which no business can be permanently successful.

The cause of business ethics is under a lot of pressure these days. Government regulators assume that businessmen are narrowly selfish, and this assumption, in turn, tends to encourage self-serving behavior, a philosophy of "if the government doesn't catch me, anything goes." It is time we realized that laws cannot force ethical behavior; high standards come from an inner commitment to honesty and fair dealing. ☐

*Mr. Gow is a free-lance writer and English teacher who lives in Arlington Heights, Illinois.*



## “The Immigration Problem”

A rising tide of anti-immigrant feeling is washing over America, leaving in its wake a misinformed public and the potential for harmful new laws. Many Americans seem to be thinking, “I’m glad my grandparents made it over from the old country, but now that we’re here, let’s shut the door to any more of those foreigners.”

People opting to come to our shores is a generally positive development; in fact, it’s what made it possible to carve this great country from a wilderness in the first place. The lessons of free immigration may be drowned out by a host of current concerns, but they are as real and vital as ever.

In a widely acclaimed 1989 book entitled *The Economic Consequences of Immigration*, University of Maryland Professor Julian Simon demolished virtually every fallacy of the seal-the-borders mentality. He proved that immigrants do not subtract from the total number of available jobs, are net contributors to the public treasury, do not commit more crimes than natives, and generally work harder, save more, and are more likely to create businesses than native Americans. All things considered, newcomers add wealth, culture, and human capital to the economy.

Simon has demonstrated that immigrants are really not the huddled masses, helpless

and dependent, that many people think. Instead, they are usually young and vigorous adults with excellent earnings potential. His detailed studies show that on balance, even accounting for all public welfare and other government “social service” costs imposed by our homegrown nanny state, each immigrant still contributes far more than he “takes” by being here.

In a 1990 *Wall Street Journal* article, Simon made another point worth repeating. The foreign-born population in the United States today is only about 6 percent—less than the proportion in such countries as Britain, France, and West Germany, and “vastly lower” than in Australia and Canada. We are not a nation of immigrants. We are a nation of the *descendants* of immigrants.

People are only economic problems in systems which deny them the ability to be enterprising, to use their talents and ambitions to produce more wealth than they consume. Systems that encourage sloth and idleness with generous public welfare transform people—natives as well as immigrants—into dependents who subtract more than they add to the economy and society. What often is perceived as a crisis of immigration is really a crisis of our own politicized and half-socialized economy, which attracts some foreigners because of the subsidies it grants rather than with the opportunities for self-reliance it offers.

Sometimes, American foreign policy has generated the very waves of immigration that so many in our government lament. In

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*Dr. Reed, economist and author, is President of The Mackinac Center for Public Policy, a free market research and educational organization headquartered in Midland, Michigan.*

recent months, far more Haitians fled their country for our shores because of an American trade embargo against Haiti than fled because the military dictatorship targeted them for persecution. (After all, Haiti has almost *always* had a military dictatorship but when its people starve because of embargoes, they have to go *somewhere*.)

In any event, it seems self-evident to me that of the many pressing problems facing America these days, none are caused by immigration or immigrants. Foreigners didn't impose on us an expensive state education monopoly that doesn't educate; red-blooded Americans did. A Congress that can't balance its own budget at the same time it attempts to micromanage every aspect of other people's businesses is not made up of Haitian boat people. It wasn't Korean-born shopkeepers who set fire to downtown Los Angeles in 1992.

The case for free immigration today is strongest when it is coupled with the general argument for a free society, private property, and individual rights. I can think of no better way to illustrate this than by a personal example.

## A Model Citizen

While visiting the Soviet Union in 1985, I met and befriended a young man named Constantin. In subsequent correspondence and during later visits I made to his country, he expressed to me an intense desire to make America his home. A naturally enterprising, optimistic, and self-reliant individual, he chafed at the endless inhibitions of the socialist system. Wanting to help him, I assisted in his eventual journey to America in 1991. He arrived on my doorstep with his wife and five-year-old son and within weeks requested permanent asylum.

Constantin's values precluded the acceptance of any government benefits. He even enrolled his son in a private, Christian school. A local church helped him get off to a good start with donations of clothing and food. As his sponsor, I did all I could to help as well. Though it wasn't easy for him—he bounced from one low-paying job

to the next—he never let a productive opportunity pass without seizing it. While we waited to hear if his request to stay would be granted, he managed to earn enough to buy a house and became a highly regarded model citizen.

Only a few months ago, the bureaucrats in Washington notified him that yes, he could stay in America and eventually even become a citizen of this country. He was grateful, but I was angry. The same government that gave us the permission we all hoped for, I thought, could just as easily have denied it. Frankly, I didn't think it should have been any of the government's business.

Keep in mind that Constantin was not a burden on anyone. He never put in a claim for something at someone else's expense. He acquired nothing except by his own efforts or by voluntary charity. He or I or the church or others interested in his welfare made sure he had what he needed. He trespassed on no one's property, posed no threat or danger to anyone, even paid taxes to support a school system he didn't patronize. He was an obvious net contributor to our community and no one who knew him thought he should be held hostage to the whims of some bureaucrat or to any legislated immigration quota.

What rightful claim over the disposition of his life could the U.S. government possibly have? That *anyone* could force him to vacate the country and get away with it was, to me, an unthinkable invasion of *his* individual rights and of *my* freedom of association. Fortunately, that didn't happen, but it *could* have, and it *does* happen to others all the time.

Most Americans think that freedom means the government gets to tell us who can come here and live with us. Even many Americans who believe strongly in free trade in *goods* can't quite bring themselves to embrace free movement of *people*.

De-socialize society and the immigration "problem" resolves itself into a great blessing for us all. Foreigners will come—the best and hardiest of them—because of the abundance of opportunity a free society represents. □

# School Choice for Inner-City Kids

by Timothy P. Ehr Gott

There is a report that the U.S. postmaster general responded to a call for privatizing the postal service by mailing a stern rebuttal to the offending group's headquarters, a block away in Washington, D.C. The letter arrived eleven days later. We face a similar irony in education. "A Nation at Risk," a much-cited 1983 report, called for major reform in the way our country educates its children. Eleven years later, the public education establishment has yet to deliver.

In August 1991, a private group in Indianapolis, Indiana, decided to address the education problem by focusing on low-income students trapped in the government-run, inner-city schools. This effort, now emulated in ten other American communities, offers a challenge to those who have put their faith in routine reform efforts around the country.

The Indianapolis program is a voucher system free of government interference, devoid of bureaucracy, and virtually bereft of rules. It's the Educational CHOICE Charitable Trust of the Golden Rule Insurance Company. It pays one-half a student's tuition, up to \$800, to any legally operating school of the family's choice in Marion County. The program is open to any student

who qualifies for the federal reduced-price lunch program and who resides within the Indianapolis Public Schools district. CHOICE makes no judgments on curriculum or academics. If a child is good enough for the school and the school for the family, CHOICE cuts a check to the school each month on behalf of the student. End of our involvement.

## No Tinkering at the Edges

As a business, Golden Rule has a natural interest in improving the quality of education in its community. The company had received several suggestions for action in the education field, including an offer to endow a chair at the alma mater of its chairman, J. Patrick Rooney. And there were plenty of other reform options open to companies: adopt-a-school, legislative reform, donations of computers, teacher awards. However, none of these routes addresses the systemic problems at the core of our education dilemma. Spending resources on tinkering at the edges did not appeal to Pat Rooney and Golden Rule.

Instead, the company looked for a way to confront the system by using something every business faces every day: competition. The educational system would not dramatically alter its operations if Golden Rule had "adopted" a school. But it might if confronted with a loss of its clients!

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*Mr. Ehr Gott is Executive Director of the Educational CHOICE Charitable Trust, located at 7440 Woodland Drive, Indianapolis, Indiana 46278.*



# Foreign Aid the Voluntary Way

by Menlo F. Smith

Over the past forty years, billions of tax dollars have been funneled into foreign aid programs. Such efforts have usually been more counterproductive than useful, a result that led one of the deans of Third World development to observe: "There are two things wrong with foreign aid; one, it's foreign and two, it's aid."

Sizable portions of these funds have been siphoned off by those in positions of power, adding to their already prolific personal plunder. Little if any has found its way into the hands of those at the grassroots—the informal economy where the majority of those in developing countries struggle to eke out a livelihood. Such funds as have reached this level have more often produced dependence than self-reliance. It should come as no surprise that bureaucratic efforts to "help the poor" have met with so little success. The poor are usually that way because they are poor in spirit. The state deals in power and control, not freedom and inspiration, two absolute requisites for human progress.

People generally will put forth physical or mental effort only when there is reasonable hope that their condition will be improved as a result. The impoverished of the Third World have little reason for such hope. They are usually confronted with a number of dispiriting and discouraging barriers, includ-

ing large-scale graft and corruption, lack of entrepreneurial know-how, absence of credit, mistaken traditions which squelch individual initiative, and a pervasive notion that success in life is determined by luck and connections rather than by personal effort. All serve to deprive them of the freedom of thought and action so essential to their progress.

It was against this background that a small group of American businessmen with experience in developing countries joined together in January of 1990 to establish The International Enterprise Development Foundation, a 501(c)(3) non-profit organization more widely known as Enterprise Mentors.

The Foundation is guided by the philosophy that "a hand up, not a hand out" is the only way to benefit those who lack adequate sustenance. Nothing is given away. Some price, however modest, is always charged for materials or services, to help establish value for services rendered. More important, this preserves the self-respect of those served, a critical requirement if self-reliance is to be achieved.

The program focuses upon encouraging sound business practices by training and mentoring the owners of small-scale enterprises. Emphasis is placed upon the principles of free enterprise, including building of individual responsibility, initiative, and leadership. Also stressed are adherence to moral principles and obedience of the law.

Enterprise Mentors strives to make the program indigenous through the establish-

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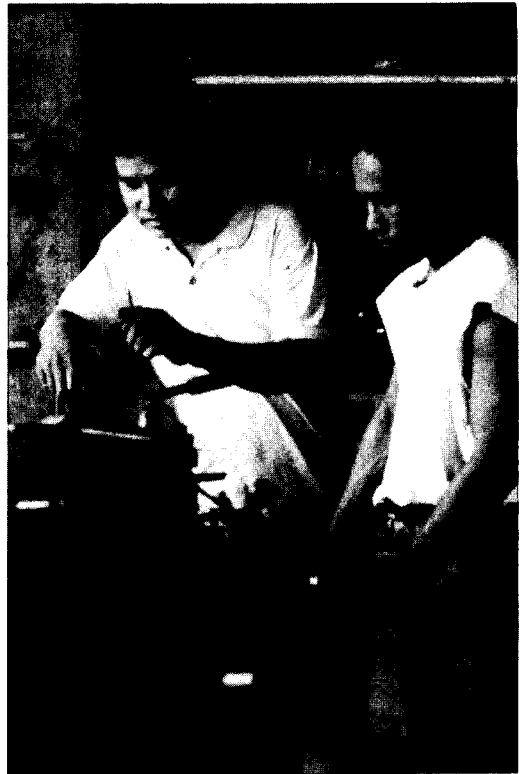
*Mr. Smith is chairman of the Sunmark Capital Corporation in St. Louis, and one of the founders of Enterprise Mentors, located at 510 Maryville College Drive, Suite 210, St. Louis, MO 63141.*

ment of local operating foundations in the host countries. The first such foundation, Philippine Enterprise Development Foundation (PEDF), is headquartered in Manila and has its own staff and Board of Directors composed of many respected Filipino business and community leaders. PEDF works with a wide variety of businesses. Most have fewer than ten employees and many have only one or two. A second foundation has been established in Cebu City in the central Philippines, and a third in Davao City in the southern area.

## Success Stories

When Reggie DeAro became involved with PEDF to develop a machine shop in December of 1990, he brought with him determination and training as a machinist. Through PEDF Reggie and his wife, Linda, received training and consulting assistance to help them devise a system for developing sales prospects and to establish accounting procedures, marketing, production, and management plans. The DeAros have now acquired land, built a sizable shop, and employ nine other people. In only three years sales have increased more than sevenfold. As a result, ten families are now more self-sufficient, and the DeAros have gained the skills and self-confidence to enable them to serve as community leaders and role models.

Another PEDF client, Vilma de los Santos, a mother of four, was struggling to augment her family's meager income by knitting blouses, baby dresses, and other garments on a small knitting machine, receiving about eight pesos (24 cents) per garment as a subcontractor. With help from PEDF she was able to obtain a small working-capital loan, and become formally registered as a business. PEDF then helped her develop contacts with major retailers, to whom she now sells directly. Vilma now has five employees in her business who earn fifty pesos (\$1.50) per garment. Six families are now better able to meet their financial needs because of her entrepreneurial initiative.



*Enterprise Mentors client Reggie DeAro (left) in his machine shop.*

The DeAros and Vilma de los Santos are only two beneficiaries of Enterprise Mentors Philippine operations, which have so far helped to create nearly 1,200 new jobs in this poverty-plagued country. Because each employed person supports an average of four additional people, the lives of nearly 6,000 individuals have been assisted in achieving greater financial security. This number will continue to grow. Plans are underway to expand Enterprise Mentors into a number of other areas including Brazil, Central America, Mexico, and Africa.

Guided by the scriptural admonition to "do unto the least of these," to feed the hungry, clothe the naked, and help the impoverished of developing countries to help themselves, the people of Enterprise Mentors and their private voluntary financial supporters (no government funding is accepted) are making a real and lasting difference in the spiritual and material lives of those whom they serve. □

# Good Intentions Under the Microscope

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by Thomas A. Hyatt, D.O.

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**I**n 1988 Congress passed a law called The Clinical Laboratory Improvement Act (CLIA), an attempt to improve the quality of laboratory testing done by doctors and hospitals. Although there is always room for improvement, I'm not aware that there was a major problem in this area. Most labs were already doing their own quality controls and internal checks.

It has taken six years for the federal Health Care Finance Administration to implement new regulations, with false starts, trial balloons, and very poor communication to the individuals and laboratories affected. But they are now here, and quickly making their presence felt. Here is one example of how the new regulations have affected private-practice doctors.

CLIA divides all laboratory tests into three categories: low complexity, moderate complexity, and complex. Most doctors will do only low or moderate complexity tests in their offices, while complex tests are usually done in hospitals and reference labs. Now with CLIA, one must pay for permission to do any lab testing. This permission is in the form of a certificate, paid for every two years, and includes a "request" from the lab for an inspection of its facilities and procedures. One must now pay for permission to do what was being done before CLIA, and then pay for an inspector to come and make

sure that it is being done according to government standards.

There is a major price break between low and moderate certificates: it costs \$100 for permission to do low complexity tests in a lab, whereas it costs \$800 for permission to do moderate complexity tests. This price break has become a major point of contention for many private doctors for one reason: strep screens. Strep screens are one of the most common tests done in a doctor's office, but have been classified under CLIA as "moderately complex." The test is now so simple that almost anyone with average manual dexterity and common sense can learn in five minutes how to do it. In fact, the procedure is identical to many of the "low complexity" tests, with one major difference, something called "the extraction phase." This is CLIA's term for the process of swabbing a patient's throat with a Q-tip, to obtain a small sample of mucous. It is felt that this step makes the strep test "moderately complex." The decision to thusly categorize strep tests has come under severe criticism, but so far bureaucrats of the Health Care Finance Administration refuse to budge.

A colleague of mine has become upset with this whole situation, and has vowed to stop doing strep tests in his office, rather than pay the additional \$700 for permission to do so. So now, if a patient of his needs a strep test, the specimen is sent to the hos-

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*Dr. Hyatt is a family physician in Payson, Utah.*

pital lab across the street, where it is tested in the "complex" certificated lab there. The interesting point is that now when my colleague needs a strep screen done, he *continues* to have his nurse do "the extraction phase" (i.e., swab the patient's throat with a Q-tip), then the swab is transported to the hospital. The patient is sent home and told to await a phone report on the results. What is done in the hospital is the extremely simple part of the test, but the hospital charges more than if it had been done in a low complexity lab, and rightly so, since they have to pay more for the permission to do such "moderately complex" procedures.

So, what has been the net effect of CLIA regulations on strep screens in my colleague's office? They now cost twice as much, take ten to twenty times longer to complete, and create a delay and inconvenience for the patient and doctor. Hence, they *decrease* quality of care overall, while

increasing costs. Do they accomplish their ostensible purpose of improving quality of the lab tests? Not at all! If anything, the delay, and transportation of the specimen, probably decrease the accuracy of the test.

Perhaps eventually, administrators will catch up with this problem, and devise new regulations to try to prevent it. Probably they will require that my colleague's nurse be classified as a hospital employee, and require her to go through an expensive training and certification process, along with mandatory increases in paperwork, documentation, wages, and benefits. A private physician such as my colleague would then logically take steps to try to limit his losses, as much as he legally can, and the whole bureaucrat-entrepreneur dance/struggle would begin anew, in an ever-tightening downward spiral towards greater government control and poorer, costlier health care. □

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# A Firm Hand Up for Street Addicts

by Phil Boerner

**O**f the chronically homeless in America, about half are single men with addictions to drugs and/or alcohol. Most agree that these homeless addicts ought to be helped; the question is how. The prevalent solution is governmental: the federal government's entitlement programs and local government shelters. An examination of the philosophy behind these programs reveals the flaw in government's method.

The federal government classifies alcoholics and drug users as disabled by their substance abuse, and thus unable to work. This definition labels the homeless addicts as victims of an illness. As a result, more than 250,000 addicts collect disability payments—\$1.4 billion last year—through the Social Security Administration. Addicts are presumed to buy shelter and food and seek treatment with the money, which averages \$434 a month (plus additional state benefits).

In effect, however, the entitlement is a reward for being addicted, and it therefore encourages continued addiction. This well-intentioned entitlement program allows addicts to buy drugs and alcohol with taxpayer dollars. Sometimes checks are sent directly to bars that allow addicts to run up a tab. That the government subsidizes addiction is bad enough. What's worse, this drug program also kills! When disability checks

come on the first day of every month, addicts binge on drugs or alcohol—sometimes with fatal results.

On the local level, states like Colorado require that anyone publicly inebriated be provided the opportunity for shelter, counseling, and medical evaluation. In Denver there are shelters like Denver CARES, which receives \$1.7 million from the state to pick up and detoxify street addicts. Each addict is given food, drink, and bed for the night, and offered long-term treatment in a rehabilitation program. Again, addiction is being reinforced. Nearly half of these addicts reject treatment and are released and picked up again another night. Many of those that do pursue treatment are set up for dependency on government agencies in place of dependency on drugs or alcohol.

## Requiring Personal Change

There is a better way, an approach aimed at developing personal responsibility. In Denver, this model is being implemented by a privately funded shelter called Step 13. Founder and director of the program, Bob Coté, holds that homelessness and addiction are the result of choices made by individuals, and they should be held accountable. If addicts refuse to make an effort to reform, he feels, help is no help. But if they want to get their lives together, Step 13 is ready to extend a hand.

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*Mr. Boerner is a graduate student in English at California State University in Sacramento.*

The Step 13 philosophy is to expect something of the clients, in contrast to the government-funded approach. Residents at Step 13 have to give up drinking, submit to regular urine tests, work or go to school full-time, and pay rent of \$125/month. They buy their own food, cook, and clean up for themselves. Step 13's goal is to allow addicts to take control of their lives, which begins with breaking their dependencies.

The shelter, founded in 1983, houses 100 men a night, who stay as long as they need to—a year or more—if they follow the rules. Step 13 provides addicts with shelter, counseling, and drug- and alcohol-abuse treatment. It is staffed by former addicts, like Coté himself, who understand the pitfalls of street life and recognize the need for firm direction.

Step 13 makes a point of accepting no government funding. The shelter generates over half of its own income through the rent it collects from clients and from a community recycling program it operates (which also provides some of the jobs for clients). For the rest, Step 13 relies on voluntarism and philanthropy. Nearly 100 volunteers

assist operations. One local cancer surgeon has for six years been the program doctor, giving every client a free physical. "That's how we survive," says Coté. "By the kindness of others." Coté is proud to operate with a budget of around \$300,000. He estimates that if he tried to set up the same program with government help, it would cost over \$2 million because he would be required to meet government mandates for academically trained personnel.

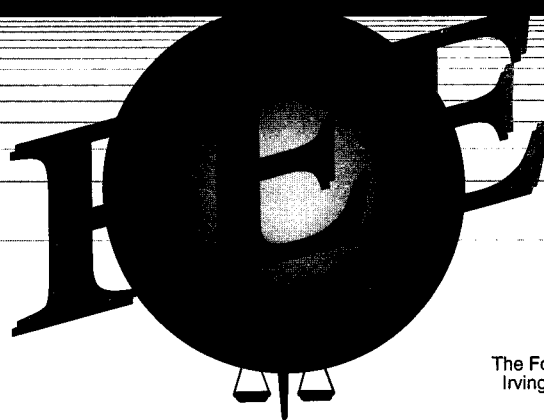
A 1990 study found that 35 percent of Step 13's clients succeeded in getting their lives straightened out. Coté is not claiming to solve all the country's homeless problems. Defenders of the prevailing programs will say that addicts will die on the streets without the government programs. Yet addicts are dying now, as Coté points out, with government help! "Show me a government handout, and I'll show you something that encourages irresponsibility," he says. No drug rehabilitation program for the homeless can work that does not require personal change. Without individual responsibility, human dignity and well-being cannot be restored. □

### **Peter Boettke and Steven Horwitz Honored by Mont Pelerin Society**

Dr. Peter J. Boettke, a *Freeman* Contributing Editor and the Guest Editor of our May 1994 issue, was awarded first prize in the Mont Pelerin Society's F.A. Hayek Fellowship Essay Contest for his essay, "Hayek's *Serfdom* Revisited: Government Failure in the Argument Against Socialism." Dr. Boettke teaches at New York University.

Dr. Steven Horwitz, who teaches at St. Lawrence University, Canton, New York, wrote the second-prize essay, "From the Sensory Order to the Liberal Order: Mind, Economy, and State in the Thought of F.A. Hayek." Dr. Horwitz made his *Freeman* debut earlier this year, with a book review in our May issue and an article on commercial banking in July.

Both Boettke and Horwitz presented their papers at the Mont Pelerin Society's General Meeting in Cannes, France, last month.



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October 1994

## Wasting the Later Years of Life

Many economists like to wax eloquent about prices, wages, and profits, but rarely pay attention to the basic principles of a civilized order. They accept as ultimately given the customs, ideas, and attitudes of the people, their habits of toil and pleasure, their honesty, integrity, dependability, punctuality, or lack thereof, and many other such factors which affect economic life. Failing to examine the basics, they may get lost in the complexities of human action.

By laws of nature, which merely is another saying for divine law, the material world belongs to the people who develop their latent energy and direct it wisely and productively. It belongs to the producers of the world, to disciplined and productive societies. It does not belong to people for whom the end of life is mere leisure and enjoyment, who produce only for their own consumption, whether the consumption be gross or refined, whether it consist of filling stomachs or loafing on the beach or whatever. No theory or argument can negate this obvious fact that the world belongs to those who enrich it economically, culturally, and spiritually.

Many rich men who filled their barns through efficiency and industry decide to resign from active life and enjoy their riches. If they still are capable producers at the time of retirement, their decision leaves society somewhat poorer; it deprives a great many people of their services. Their great productivity is lost forever; worse yet, it may even be supplanted by conspicuous consumption, which not only depletes productive capital but also creates envious eyes and social conflict.

The man whose goal is to consume his savings in his years of retirement tries to leave this world as it was when he came into it. He is liquidating the productive capital he created in his fruitful years to support his lifestyle of leisure in later years. If he succeeds, he leaves nothing but memories of his economic existence. If he produced some progeny but did not endow them

with the capital needed in a productive society, his consumption, unfortunately, reduces the stock of capital, lowers labor productivity, and depresses the standards of living of all, including those of his children. To give them a good education, which is to allow them to become useful members of society, is not enough; they need the means of production that make their labors productive. Every consumption of capital diminishes the productivity of society—no matter who does it.

Fortunately for the world, the great men among us retire only when death calls them. They may have all the income and wealth needed for early retirement, yet they keep on working and serving their fellowmen in various ways. They may labor on boards of directors or trustees giving guidance and support to the younger generation. The world is richer because of their work. Fortunately for me, Professor Ludwig von Mises retired only shortly before his death at the age of ninety-two. I sat in his classes and listened to his lectures, which were greatly to affect my life, when he was seventy to seventy-five years of age. He reached many more people with his powerful pen which he wielded until death took it from him.

Age does not depend upon years, but upon attitude and health. Some men are born old, and some never grow old, carrying their years gracefully and happily. Carl Bonstetten, the Swiss author who died at the age of 107, explained his longevity: "To resist the frigidity of old age one must combine the body, the mind, and the heart. And to keep these in parallel vigor, one must exercise, study, and love." And to be useful in life, I would add: one must be productive.

The physical resources of a country are limited by nature. The stock of capital is given at a particular moment of time and can be increased only slowly through saving and investing. But human labor, which is the most important factor of production, can be increased immediately.

Human energy, when directed toward useful ends instead of being wasted in unproductive pursuits, is the most important agency of human progress.

This must not be construed to mean that all human energy should be devoted to the production of goods and services. Energy expended toward education, recreation, cultural pursuits, and even entertainment, strengthens the body, inspires the mind, and rouses the entrepreneurial spirit. Such efforts must be commended; they increase the productive power in any sphere and give courage and fortitude to everyone involved.

The world is ruled by the disciplined and productive countries that prosper and grow; it does not belong to those that devote themselves to self-indulgence and idleness. Throughout most of its short history, the United States enjoyed rapid economic progress because the people practiced the moral and economic virtues that bring prosperity and growth. In time, their productive energy was to make it the sole superpower in the world, inspiring and attracting all others.

A society that has risen to such a position of leadership through long practice of economic virtues may be tempted to waste its energies. The people may begin to indulge in all forms of consumption, joyful idleness or just motionless reflection of their own greatness and perfection. Under such conditions they may become receptive to the arguments of a "trough philosophy." Instead of pursuing fruitful activity, they begin to act as if life were a common trough from which they might help themselves to all the amenities and enjoyments. If they have no savings to consume, they may even prey on the income and wealth of their fellowmen through the apparatus of politics. Few retirees can resist the temptation to imbibe at the public trough.

The devotees of this philosophy like to take refuge in economic arguments which are to justify their idleness. They retire from productive life, we are told, in order to make room for the coming generation. Jobs are scarce, they say, we must withdraw from the labor market so that youth can carry on.

Such self-serving arguments obscure the fact that an unhampered market economy has jobs for any number of people, for youths as well as seniors. The employment of people of all ages depends on their respective usefulness. The productivity of a sexagenarian does not negate the productivity of a young person, nor does the labor of a youth jeopardize the employment of a senior. On the contrary, both can work side by side and benefit from each other's efforts. Labor is a scarce resource.

Surely, in the evening of life the circle of frailties and pains enlarges while that of pleasures contracts. Individual productivity declines at first in physical pursuits and later in all others. Men of age tend to object too much, consult too long, and content themselves with mediocre work and success. Yet, as they ripen into maturity,

they accumulate the experience, judgment, and wisdom necessary for a civilized world.

It is natural that individual duties and responsibilities should be reduced as the capabilities decline. Aging individuals in all walks of life may serve fewer clients and work shorter hours. They may hand their demanding tasks over to younger colleagues and step back in the hierarchy of producers. Unfortunately, many prefer to slump into an armchair and withdraw from life—which is psychologically understandable but economically and humanly wasteful.

The "trough philosophy" has swayed the thinking of a great many Americans since the 1930s. It permeates the economic thought of both political parties and shapes economic policy on all levels of government. The federal government alone finances the retirement of more than thirty million people through a complex system of Social Security and Medicare. Several more millions enjoy generous federal, state, and local government retirement benefits which taxpayers are forced to provide. And to remain competitive in the labor market, private corporations must follow suit. All these benefits are designed to create and support a leisure class which consumes economic wealth as fast as the working generation can create it.

"What is wealth for but to be enjoyed," many Americans ask as if there could be only one answer. Of course, we are entitled to enjoy living, but it is shortsighted to act as if we are the last generation on earth destined to consume what many generations of forebears created through tireless labor, economy, and frugality. Many people, priding themselves in their knowledge and wisdom and fancying themselves very enlightened, cannot fathom that the end of production is to possess the means to continue our productivity—in its endless variety—till death calls. The eternal world is not just *our* world, but that of our children and their children. The great object in life is not to consume quantities of worldly possessions; it is to pave the way for generations to come, just as our forebears prepared the way for us. We temper our consumption in order to enhance productivity. Any surplus we produce must be used for future production, further conquest of nature by our descendants, and an extension of their dominion over this world.

This accountability philosophy of life stands in open competition with the trough philosophy. Societies that succumb to the insidious appeal of the latter grow weak and lose ground to those who hold to the former. Those who adhere to the accountability philosophy, which used to be the American view of life, excel all others. This is, and always has been, the law of nature.



Hans F. Sennholz

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For more information about starting a discussion club, or joining a Freeman Club that may already be meeting in your area, write Felix R. Livingston, Director of Freeman Services, 2814 Hilsdale Harbor Way, Jacksonville, FL 32216, or call/fax (904) 448-0105.

# Sour Days at the Lemonade Stand

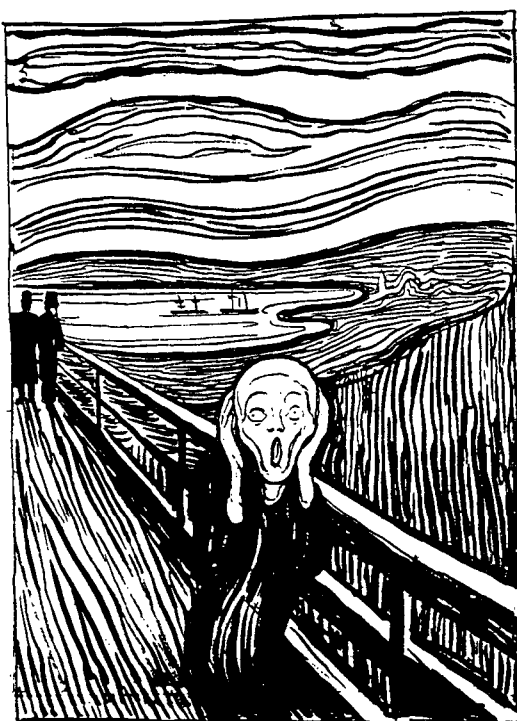
by Ted Levinson

Norman Rockwell couldn't have dreamed of a more wholesome and traditional scene than a youngster's sidewalk lemonade stand. This American rite of passage embodies hard work, dedication, and reward. Here is the training ground for fledgling capitalists to learn about profits, risk, supply, demand, and competition. Since lemonade stands are such a cherished memory of childhood, it is fitting to consider how they may have to change under the impact of government regulation. Would Rockwell still be the artist of choice to render the local stand on canvas? Might Edvard Munch, who painted "The Scream," be a more appropriate selection?

Once upon a time, regulation at the lemonade stand meant you had to be inside for supper by six. Intervention was when the neighborhood bully helped himself to a free serving, and health codes were limited to keeping bugs out of the pitcher.

Today, the government has encroached on every facet of our economic activities. No longer can a transaction occur between two willing parties. Every pecuniary action involves three agents: the buyer, the seller, and the ubiquitous State. Not even the lemonade hawker is free from big government's stifling control.

Lemonade, if you do it by the book, is a  
*Mr. Levinson graduated from Tufts University in 1993 where he was the recipient of the Paul Montle Prize for Entrepreneurship.*



"The Scream" by Edvard Munch

© 1994 The Munch Museum/The Munch-Ellingsen Group/ARS, New York

serious business in Boston. Opening a stand requires permission from five different government entities. Licenses and permits for a lemonade stand cost \$335. Fifty-five dollars covers the cost of a city Hawkers' and Peddlers' license from the Division of Standards. A mobile food permit from the Health Division runs \$100, while registering a business with the City Clerk costs \$30. For \$15 a square foot the Department of Public

Works will issue a permit to sell on public sidewalks. Furthermore, Boston requires lemonade stand operators to carry \$500,000 liability insurance policies. What half-million dollar damage a lemonade stand can inflict, I cannot fathom. With the fees come the redundant forms and long lines which characterize government.

## Letters Three Inches High

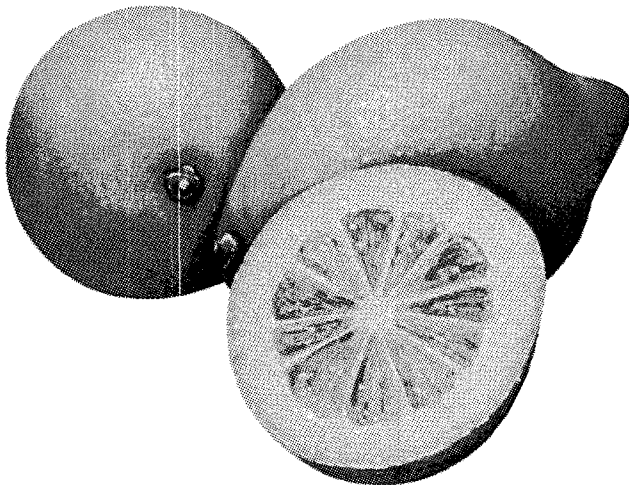
Cash alone does not appease the sundry departments and divisions that regulate the lemonade industry. Along with the fees are countless rules which aim to protect the public's welfare. However, in practice, most of them are burdensome, arbitrary, and detrimental to the common good.

The old-fashioned lemonade stand must comply with dozens of ordinances. For example, 105 CMR 590-004(A)5 requires sugar to be in its original package or a container identifying it by common name and 590.009 grants the Board of Health jurisdiction over the length of employees' fingernails. If the lemonade is made in a residential kitchen, only immediate family members residing in the household may prepare it for retail sale (590.028F), and washing machines and dryers located in the kitchen may not be in operation while the lemons are squeezed (590.028G(15)). At least once a day, food pushcarts must report to a fixed food establishment (such as a restaurant) for supplies, cleaning, and servicing (590.029(1)).

The Commonwealth of Massachusetts frowns upon the ramshackle wooden stands set upon the lawn that Rockwell would paint. 590.029J(q)a requires serving area surfaces to be of a "smooth, nonabsorbent material such as concrete or machine-laid asphalt. . . ." All mobile food units must also display the owner's name in letters not smaller than three inches on the left and right sides.

It isn't only the young who are overwhelmed by the prospect of a business partnership with the State. Plenty of enterprising individuals are too daunted by the paperwork and confiscatory nature of government to open the adult version of a lemonade stand. Government policies thwart businesses even before they start. The most persistent who do open shop are faced with government's taxing demands on their time and wallet.

We all suffer from the State's undue interest in even our most innocuous and pedestrian entrepreneurial ventures. It is the lemonade stand owner and his kind, the productive individuals of society, who bankroll the bureaucracy. In a painful irony, the productive segment of society pays for a legion of government employees who dedicate their lives to impeding the work of lemonade salesmen everywhere. No one benefits from notarized signatures and forms in triplicate and junior assistants to the *pro tem* co-director of Public Works licensing. In sum, the State doesn't make lemonade. □



# The Befriending Volunteer: Octavia Hill

by Peter Clayton

In South Street Philadelphia, a small non-descript building bears a proud title: The Octavia Hill Association. Few today recall the English woman who inspired this and many similar organizations. Octavia Hill was the Florence Nightingale of Victorian housing. Emphasizing personal involvement and small-scale operations, she demonstrated that it was possible to rent houses to the disadvantaged poor, uplift them, and still make a profit for the owner. Though she aspired only to “free a few poor people from the tyranny and influence of a low class of landlords,” by the end of her life in 1912 she had developed a volunteer-based initiative that had worldwide influence. Her methods were copied in Holland, Denmark, Germany, Russia, and America.

Behind the simple day-to-day humanity of her work lay an ethical strategy. Octavia Hill was influenced by John Ruskin, the English art critic and philosopher. Ruskin held that a root cause of society’s malaise was the absence of routine personal contact between classes. The poor lived their lives in obscure, impenetrable corners of cities. Those who dictated policy and formed opinions knew nothing of them save what they read or assumed to be true. Many city

missions were patronizing, or conditioned their aid on conversion or adherence to a particular religion.

Octavia Hill worked with her tenants not for them. The poor, she said, should be regarded “primarily as husbands, wives, sons and daughters, members of households, as we are ourselves, instead of as a separate class.” All individuals were worth an effort. “Before our influence can be human, natural, and helpful, before our elaborate network of organization can be anything but harmful, these widespread masses which form the poor of our towns must be to us again separate human beings, with individual histories, characters, hopes, longings, temptations. It has been ordained that each of us has a distinctive face and form known to those who love us, and which enwraps a soul as distinct.”

Central to her work was the recruitment, training, and efficient utilization of hand-picked volunteers to manage housing for owners. She said, “We have to be the poor man’s friend if we are to be his benefactor.” For Octavia Hill and John Ruskin, the only way that such friendship could be achieved was by personal contact over a long period. The method chosen to build this relationship was the routine contact between landlord’s agent and tenant. The Tenth Annual report of the Octavia Hill Association of Philadelphia in 1906 identified the three inseparable factors of housing management, “the house, the friendly rent collector or agent, and the

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*Mr. Clayton is volunteer chairman of the Octavia Hill Society and of The Octavia Hill Birthplace Museum Trust in Wisbech, England. American membership secretary of the Society is Tina Hummel, 4730 Bradley Blvd., #A10, Chevy Chase, MD 20815.*



*Octavia Hill was a prolific writer of both letters and essays.*

tenant.” “The house,” it continued, “was never to be considered apart from the tenant and the kind offices of the agent; in fact, the three were to form practically a unit—the house existing to be rented by the agent to, and for the use of, the tenant, never for rent-value alone. The agent was to be the guardian, as it were, of the well-being of tenant, house, and landlord, between whose trebly distinct yet united interests there could, in a most important sense, be no division.”

The “fellow workers” in the field were but one type of volunteer utilized by the Octavia Hill method. The others included property owners who volunteered to forfeit the full rental value of their property. Octavia Hill needed enlightened landlords who were prepared to accept a limited but assured rental return on their property. Once when she was talking to a group of peers in England, Octavia Hill was reproached by a Duke who said, “Miss Hill, you wish to tax our property.” She replied, “No, your Grace, I wish you to tax yourselves.”

## Skeptical of State Action

Octavia Hill had little faith in state action. She had considerable respect for politics at a local, grassroots level, but her view was that the duty of national politicians was just to create and sustain conditions for individuals to prosper. She pointed out that she had known two prime ministers (Lord Salisbury, who was a personal friend, and Gladstone), and neither of them had any experience with poorer people. Such ignorance, she insisted, could not produce sound policy.

As large-scale social policies were implemented with vigor in the early years of this century, Octavia became a lone voice of dissent, pointing out with prophetic vision the inherent pitfalls. She wrote, “It is, of course, true that there are certain great human needs that may be met en bloc and from a distance, but it is curious how few they are, how badly they are met unless it be by those with much individual sympathy, and how curiously little joy or gratitude they bring, and how little self-reliance. It is the gift to the man himself, from a man, which reaches him. Lowell is for ever right—‘the gift without the giver is bare.’”

“It is not by widespread changes, it is not by more legal enactments but face to face and heart to heart that pauperism must be dealt with,” she wrote. “It is the friendly help that takes the degradation out of it.” She urged that volunteers “not attempt too much, but take some one little bit of work, and doing it simply, thoroughly, and lovingly, wait patiently for the gradual spread of good.”

For Octavians, there were no easy policy prescriptions for the problems of society. Redemption could come only from concerted and sustained action by individuals. The value of their work was eloquently pleaded by historian Fullerton Waldo in his 1917 account of the Philadelphia Octavia Hill Association. “It is an investment in human lives, and it underwrites the welfare of the city, the country, the world in the age to come by assuring the health and happiness of the unborn.” □

# Some Philanthropists Turn Their Backs on Voluntarism

by Kimberly O. Dennis

**I**n the course of less than a century, government has essentially replaced voluntary institutions as the court of first resort for people seeking help.

If you were a poor, single, twenty-year-old pregnant woman in New York at the turn of the century, you would have had many places to turn for help, voluntary organizations whose goal was to help you to thrive independently. To obtain medical care, for example, you could have taken advantage of any number of free clinics, such as the Bloomingdale Clinic for the Free Treatment of the Poor. For food, clothing, and fuel you could have sought the assistance of the Ladies' Fuel and Aid Society. For training and employment you might have gone to the Charity Organization Society, or to one of the free schools or libraries sponsored by charitable institutions. Typically, these organizations would have asked you for something in return for their help. Their intention, after all, was to provide a hand up, not a hand out, and as voluntary organizations they had no choice but to be economical with their resources.

Now imagine yourself a poor, single, twenty-year-old pregnant woman in New York today. Where would you go for assistance? Chances are you would head to the

nearest government office to apply for AFDC, Medicaid, and food stamps.

What is behind this shift from voluntary helping institutions to government welfare? The development seems especially ironic in a city like New York where grantmaking foundations, which were virtually nonexistent 100 years ago, now number around 3,700. One would think the proliferation of foundations would have brought with it the growth and reinforcement of private non-profit organizations devoted to the public welfare.

Sadly, the reverse has happened. Philanthropists have been one of the main promoters of the government welfare system. Their foundations, most of which were made possible by entrepreneurs who accumulated fortunes without the help of—or even in spite of—government, have been more interested in expanding government's responsibilities than in strengthening private institutions to address social concerns.

When private foundations have the ability to develop innovative solutions on their own, why do so many look to government—a slow, bureaucratic machine—to accomplish their objectives? Perhaps the main reason is that foundation officials have been attracted by the seemingly vast resources of government. There is a strong tendency for foundations to try to “leverage” their dollars to influence how government allocates its funds. Many foundations fund pilot demon-

*Ms. Dennis is executive director of The Philanthropy Roundtable, a national association of grantmakers based in Indianapolis.*

stration projects with the idea that the successful ones will be picked up by government and replicated on a much larger scale. This is how the Head Start program began.

## Making Big Brother Bigger

Such use of foundation dollars to influence and expand the scope of government is apparent on many policy issues. The Robert Wood Johnson Foundation, for example, made itself a major player in the national debate over health care reform by sponsoring a series of public hearings in which Hillary Clinton discussed health care issues. And in December 1993, Walter Annenberg announced an unprecedented \$500 million grant to support school reform, stipulating that the funds would be used "to show the public what needs to be done" to improve public education. The grant was announced by President Clinton at a highly publicized White House ceremony. There was no mention of supporting the many private schools that are succeeding where public ones are failing.

A perusal of the grants list in any issue of *The Chronicle of Philanthropy* reveals numerous examples of efforts by foundations to shape and enlarge government's responsibilities: \$300,000 to endow a professorship to help advance equality for women in civil and economic rights; \$25,000 to help neighborhood groups advocate equitable uses of New York City tax dollars; \$125,000 to develop and disseminate national guidelines for sex education of children and adolescents.

Some foundations have taken their efforts to influence government policy a step further by making grants to governments themselves! *The Chronicle of Philanthropy* reports, for example, on a \$30,000 grant to a city in Ohio to train and educate its workers, and a \$450,000 contribution to a city in Minnesota to expand housing opportunities and increase tourism revenue through the development of an 18-hole golf course.

By fostering greater government involve-

ment in providing for the common good, the philanthropic sector in this country has unwittingly undermined private voluntary institutions. Where government's growth hasn't usurped voluntary institutions, it has rendered them dependent. According to one estimate, non-profits now derive some 60 percent of their revenue from government subsidies, grants, and contracts. Libraries that were once supported by private donations are now government-funded; hospital services once made possible through charity are now paid for by government; schools that used to be run by religious institutions are now sustained through government grants and scholarships; and arts institutions built on private patronage now depend on government assistance.

While foundations may think they accomplish more by making use of government monies, in fact they only compromise the long-term vitality of the voluntary sector. What begins as leverage ends up as bondage. The control shows up in onerous reporting requirements for non-profit institutions, in organizations that tailor their missions to accommodate government funding priorities, and in growing congressional demands for greater regulation of non-profits.

Now—perhaps the ultimate irony—governments are launching efforts to revive voluntary initiative. Having smothered it, they are trying to bring it back to life. In school districts around the country, students are being required to perform community service as a condition of graduation. At the federal level, President Clinton has launched a national service program that makes financial and educational assistance available to those who "volunteer" at certain non-profits. But voluntarism can't be bribed or enforced; the whole idea is self-contradictory. Government can't resurrect what, by its very nature, it undermines. Foundations could make a difference, if only they'd stop funding the government's expropriation of the voluntary sector's responsibilities. □

# Zsa Zsa and the Litigation Explosion

by Ralph R. Reiland

This time it's big trouble for Zsa Zsa Gabor, worse than when she slapped the Hollywood cop and was sentenced to work at the women's shelter. Now, for a verbal faux pas, a California jury says she must fork over a big slice of what she's earned since World War I in all those movies and marriages. For telling a German magazine that fellow actress Elke Sommer is a Hollywood has-been who loafs in sleazy bars and makes hand-knit sweaters to support herself, Ms. Gabor owes \$3.3 million.

In less litigious times, before the tort explosion, we could have expected a volley back from Ms. Elke about ancient Hungarian windbags, and that would've been it. No government involvement, no trial, no houses confiscated, and no gravy train for the lawyers. Not a cent was transferred from W. C. Fields when he called Charlie Chaplin a "---- of a ----- ballet dancer."

The problem with Zsa Zsa is that she totally ignored new political correctness, and now she has to pay. She had no idea that the First Amendment's "no law . . . abridging the freedom of speech, or of the press" had been increasingly loaded down with exemptions, and that zealous politicians and bureaucrats had enacted jackpot penalties to muzzle the outrageous and eradicate faux



Zsa Zsa Gabor

AP/WIDE WORLD

*Mr. Reiland teaches economics at Robert Morris College in Pittsburgh, and is the owner of Amel's Restaurant in the same city.*

pas. Stars of the silver screen are now supposed to talk like law clerks.

At the *L.A. Times*, there's a new 19-page list of words that are officially off-limits to

reporters, lest they might hurt somebody's feelings. Banned are Dutch treat, gypped, welshing (all stereotypes of Euros), plus Chinese fire drill, ghetto, inner city, pow-wow, illegal alien, admitted homosexual, queer, hillbilly, white trash, hick, lame, deaf, handicapped, babe, co-ed, divorcee, bra-burner, and gal. Also unprintable is the Kaffir Lily (a botanical slur against South Africans) and Canucks (except on the sports page). Words not fully censored, but warned against, at the *L.A. Times* are stepmother, WASP, mailman, male nurse, and man-made. Reporters at the *Washington Post* are warned about using oriental, woman lawyer, and Red China.

The Iowa City Community School District has a no-no list for Halloween costumes. The district's Equity Affirmative Action Advisory Committee suggests that kids not dress as hobos, old men, old women, witches, devils, Indians, slaves, Africans, gypsies, or Nazis. Instead, Marian Coleman, Equity Director for the district, recommends the tykes go door-to-door as Abe Lincoln and Robin Hood (showing her lack of sensitivity to folks who can't handle one more politician or egalitarian with his hand out). Ms. Coleman explains that the school makes costume suggestions because the district doesn't want to get sued for providing a "hostile environment" for children.

At Harvard Law School, Professor Alan Dershowitz laments, "These days I will not teach the subject of rape without having a recording. One woman actually tried to bring sexual harassment charges against me for the way in which I teach rape. . . . People are really losing a lot, in terms of their education, when teachers are frightened away from teaching controversial subjects."

Fear of litigation has made it increasingly difficult to find volunteers to work with children. With nobody immune from accusation, "Every year it's like looking for a needle in a haystack to find enough coaches," says Richard Walker, national spokesman for the Boy Scouts of America. "What you are seeing is sexual abuse hysteria," states Dr. Richard Gardner, Professor of Child Psychology at Columbia University. "People are running scared. You can't touch kids anymore."

"The idea that our individual lives and the nation's life can and should be risk-free has grown to be an obsession, driven far and deep into American attitudes," cautioned Henry Fairlie in *The New Republic* several years ago. "Indeed, the desire for a risk-free society is one of the most debilitating influences in America today, progressively enfeebling the economy with a mass of safety regulations and a widespread fear of liability rulings, and threatening to create an unbuoyant and uninventive society."

In *Democracy in America*, Alexis de Tocqueville predicted a "new kind of servitude" where a "supreme power covers the surface of society with a network of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals, of which government is the shepherd." □

# Time to Smarten Up Rather Than Dumb Down

by Philip Perlmutter

**D**umbing down" seems to be gripping many schools and workplaces, driven by the belief that democracy will be enhanced, education for minorities improved, and bigotry diminished. A variety of techniques have been devised, such as inflating school grades, passing all students, using different performance measurements for different groups, recruiting people because of their group affiliation rather than individual ability, eliminating competency tests, ending separate classes or tracks for talented students, and generally discarding any evaluation that results in disparate group findings—whether by race, ethnic group, sex, age, or physical ability.

For example, New York City's Sanitation Department developed an employment test in which 23,078 out of the 24,000 people passed—thereby allowing the department to say the minorities it hired were top scorers. Also, in a desire to increase the number of minorities, the U.S. State Department's diplomatic service stopped considering knowledge of foreign languages in hiring, and created a "near pass" test category, from which only minority applicants, who had scored lower than whites, were hired.

At many educational institutions, course work has been eased, graduation require-

ments reduced, and classroom performance distinctions eliminated. At Harvard, the grade "C" has all but disappeared and "A" made more common, going from 22 percent of all grades in 1966–67 to 43 percent in 1992. At Stanford, the proportion of "C's" declined from 16 percent in 1968–69 to 6 percent in 1986–87, while in the same period "A's" went from 29 percent to 35 percent. Grade inflation has adversely affected many students who at first work hard for good grades and honors degrees, and then, according to Stanford professor William Cole, "throw up their hands upon seeing their peers do equally well despite putting in far less effort." A 1992 federal study found that 25 percent of four-year college graduates had not studied history, 30 percent had not studied math, almost 40 percent had not studied literature, and more than 50 percent had not studied a foreign language.

At the same time, a culture of peer group pressure not to achieve has developed among some minority students, particularly blacks, wherein studying, speaking standard English, being on time, using the library, and getting "A's" is acting "white" and therefore to be avoided.

"Dumbing down" has also become a way of solving the financial problems of a growing number of junior and four-year colleges, some of which "have been accepting every warm body that applies," according to David Bartley, president of a Massachusetts

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*Mr. Perlmutter is author of Divided We Fall: A History of Ethnic, Religious and Racial Prejudice in America, published by Iowa State University Press.*

two-year college. To maintain their budgets and staffs, some college departments and professors have resorted to "competitive standard-cutting" in order to attract and maintain student enrollment.

As a result of such developments, the proverbial "best and brightest" are no longer sought, nurtured, or produced. The average verbal S.A.T. score is today much lower than it was in the 1960s. A federal study of talented schoolchildren (which included the poor and minorities), found many were bored in classrooms, did poorly on international assessments of achievement, underperformed on domestic tests, and were offered less difficult courses, books, and homework assignments than their counterparts in other countries.

## Historical Irony

"Dumbing down" is not limited to today's minorities, nor did it originate with them. Until recent years nonwhites had to make greater efforts to gain acceptance in education, business, and sports. Throughout much of American history those of the "right" religion, ethnicity, socio-economic

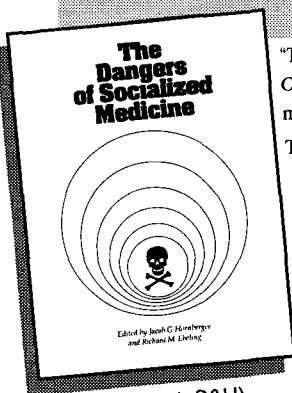
class, family, political connections, or athletic prowess—chiefly white, Anglo-Saxon Protestants—took pride in mediocre standards and performances—as epitomized by the almost proverbial satisfaction in earning a "Gentleman's C" grade.

At many turn-of-the-century Ivy League colleges, anti-Catholicism, anti-Semitism, racism, social snobbery, and anti-intellectualism were extensive. "Scholarship has apparently declined throughout the country; certainly at Yale," lamented a 1903 Yale faculty committee report. "In fact, in late years the scholar has become almost taboo." Only lower-class students from the public schools and those of Eastern European and Asian origins were expected to study hard. Gentlemen preferred extracurricular sports.

The historical irony is that for decades, reformers sought to end invidious group-based discrimination, political patronage, and familial nepotism by encouraging excellence and instituting objective standards, procedures, and tests that were equally open to all applicants. Now, smartening up is being replaced by dumbing down, for both minorities and majorities. □

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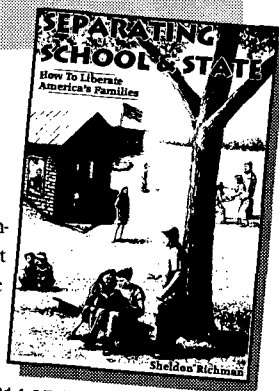
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# Uncle Sam's High-Priced "Volunteers"

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by Jill K. Cunningham

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In government "volunteering" programs, it's easy to be misled by first impressions. Consider the Georgia Peach Corps, a youth program that operates in two rural counties in eastern Georgia, funded with a \$2.8 million grant from the federal government's Corporation for National and Community Service. At first glance, the visitor to the work center in Thomson, Georgia, is impressed. The youngsters seem to be working hard, getting along with each other despite diverse backgrounds. However, a closer look raises serious questions.

To begin with, the workers are not volunteers who have been attracted to the program by idealism. They are employees, paid a wage of \$4.25 an hour and earning a \$5,000 tuition grant for a nine-month involvement with the program. In addition to these benefits, the program has massive overhead costs for supervisory personnel, travel, training, and general red tape. These burdens, combined with a high dropout rate in the program—it began with 140 students and graduated only 80—have driven the real cost per graduate to over \$35,000 per year. For this expense the country benefited from youngsters who worked six hours a day, four days a week, for nine months. (The rest of the time was spent in transit or "training.")

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*Miss Cunningham is editor of Philanthropy, Culture, and Society, a publication of the Capital Research Center in Washington, D. C.*

While the projects these workers complete are well-built, there's a catch. By law, they cannot compete with private industry for contracts, and cannot displace any government workers through their efforts. This virtually insures that the projects they are assigned will be of marginal value to the community.

A case in point was the roof the Peach Corps put on the job training facility in Thomson. The roof was well done, easily passing for the work of professional roofers. But the federally-funded facility is used very little—much to the frustration of instructors. While I was there only one student—flanked by two instructors—worked on one of the four brand-new computers. (He was playing "Wheel of Fortune.") The facility can handle up to 12 students at a time but never does. Twelve new dictionaries sit in the corner, their spines unbroken.

The effort to assemble a corps that, in Clinton's words, "looks like America" has also been a struggle. According to program director Ken Cook, young white men were not keen about the idea of working for government. "White males are generally able to go on to college, or they saw this as a federal giveaway program and not cool." The Peach Corps made a concerted effort to divert potential recruits from the college track to fulfill their affirmative action goals.

For all the talk of civic awareness, it's hard to argue that the Peach Corps is an

integrated part of the community. Only \$5,000 of its hefty budget came from the Thomson area. And it's hard to believe that beyond the few public works projects scattered throughout the county, the Peach Corps will leave much of a legacy. Funding will not be assumed by local entities when the federal money runs out.

## Whose Work Ethic?

Were there positive, measurable results for the youngsters themselves? Project director Ken Cook reports that "out of the 80 kids, we probably have 20 percent going on to do something that more than likely they wouldn't have normally. One kid is going to an apprenticeship program, several are going to vo-tech school, some are going into nursing." Taxpayers might well wonder whether getting 16 youngsters to do something that "more than likely they wouldn't have normally" is a fair return on \$2.8 million of their money.

Did the program develop the work ethic

and a commitment to volunteering? The unglamorous truth is that this community was already strong without the Peach Corps. Thomson played host to this national experiment because the community is a model one—a "five-star community" according to a state panel—offering citizens good schools, low taxes, low crime rates, and a high standard of living. The work was of high quality because the youngsters already have skills and a good work ethic. In Thomson, many families are still intact and the influence of the church lingers. They haven't waited for the government to teach them to volunteer: 50 percent of the citizens already do so in some fashion. In fact, many of the Peach Corps youngsters voiced surprise and disappointment that in addition to their paid work, genuine unpaid service wasn't expected of them.

In this government "volunteering" program, the high cost may be more than just the \$35,000 per graduate. It may be the erosion of community spirit begun by teaching young people to expect payment for good deeds. ☐

## Helping One's Neighbor

**I**t has been my observation and experience everywhere I have lived that almost everyone is willing to help his neighbor who is truly in need—if the receiver respects the giver's right to do it voluntarily and in his own way. So far as I can now recall, no person has ever refused any sincere and logical request of mine for help, whether my need was medical, legal, spiritual, financial, educational, or whatever. In fact, so many hundreds of persons have given me assistance at various times and in various ways that I cannot now possibly recall all their names!

There are many sincere and charitable persons who truly want to help their less fortunate fellow men; but they want to perform their charitable acts on a large scale with other people's money, instead of on the basis of their own individual capabilities and with their own money! Their sincere but misguided idea of helping people is to pass a law to force everyone to contribute to government which, in turn, will distribute the money "to those who need it most." This concept is sometimes called the "service state" or "welfare government." The people who hold this concept are especially dangerous because their intentions are so good. The purity of their motives tends to obscure the ultimate evilness of their acts.

—DEAN RUSSELL, "Equality and Security" (1952)

IDEAS  
ON  
LIBERTY



## I'm All for Free Trade, But . . .



"The dogma [of free trade] does not stand up. . . . Import relief in the 1980s saved America's industrial base—and countless jobs—at tiny cost."

—Pat Buchanan, "How the Rust Belt was Revived,"  
*Washington Times*, July 20, 1994

Conservative columnist and political commentator Pat Buchanan needs to take a refresher course in Econ 101. He cites a study by economist Alan Tonelson in *Foreign Affairs* magazine (July/August 1994) supporting his "America First" doctrine of economic protectionism. "The United States ought not to surrender any weapon in its arsenal of defense for vital U.S. economic interests," says Buchanan.

Tonelson concurs: "Five major American industries—automotive, steel, machine tool, semiconductor, and textile—received significant relief from imports through intelligently structured trade laws. Those industries have confounded the predictions of laissez-faire economic ideologies by gaining market share at home and in some cases abroad, contributing to job creation and reinvigorating American competitiveness."

Thus, after Tokyo agreed to voluntary import limits in 1981, American auto makers achieved an astonishing comeback. The Big Three came out with new products such as the minivan and compact utility vehicles. Investment in new plant and equipment resulted in a substantial increase in productivity and quality of U.S. cars.

After Reagan negotiated bilateral agreements limiting imports of finished steel in 1984, investment and worker productivity in the U.S. steel industry soared, making the U.S. one of the lowest-cost producers in the world. Import curbs on machine tools, semiconductors, and textiles saw similar results—increased research and development, investment, cost-cutting, job creation, and retooling. The U.S. improved its competitiveness in all these markets.

Buchanan concludes: "The conventional wisdom was wrong."

### Is This the Whole Story?

Before we reject two centuries of sound economic wisdom, let us consider all the relevant factors. Messrs. Buchanan and Tonelson conveniently forget to mention the environment in which these five industries performed so well. The reality is that virtually all industrial groups expanded sharply during the "Seven Fat Years" of the Reagan era, as Robert Bartley calls it. The free-trade critics have committed the classic *post hoc, ergo propter hoc* argument. Just because an event (import restrictions) occurs simultaneously to another event (economic recovery) does not mean that one is the primary cause of the other. There may be other, more powerful forces at work. Indeed, in the midst of a sharp recession (1981), Congress cut tax rates substantially for individuals, corporations, and investors, thus stimulating a "supply-side" revolution. Further-

more, in the summer of 1982, the Federal Reserve reversed its tight money, high-interest-rate policy in favor of easy money and lower interest rates. The low-interest rate, tax-cutting era continued almost throughout the 1980s, factors which most likely dwarfed the impact of import restrictions.

One should also not ignore the impact of a falling dollar since 1985 on the improvement in U.S. exports and foreign competition.

In short, the Rust Belt was revived primarily because of the "supply-side" revolution of tax cuts, deregulation, and an accommodating monetary policy—not protectionism. At least Messrs. Buchanan and Tonelson provide little evidence that the protected industries outperformed all other industries.

## Global Trade Is Inevitable

This is not to say that U.S. producers didn't benefit from import relief. Undoubtedly, they did benefit. After all, tariffs and quotas aren't the measles. Yet the benefits may not have been all that great. The auto, steel, and textile industries would probably have done almost as well without the import restrictions.

Even before the import quotas were imposed in the 1980s, most of the leaders in these industries had recognized that the world was rapidly moving toward global free trade. Ford, for example, had already decided to take the Japanese and the Germans head on in building high-tech automobiles. Gradually more and more of the components of "American" products are made in foreign countries. Despite all kinds of restrictions and regulations in the textile and apparel industries, more and more shoes and clothing are being made in Asia and Latin America—by American-based companies. Global free trade is a simple fact of life and any manufacturer in the United States who doesn't recognize its inevitability is headed straight for bankruptcy court.

## Cost-Benefit Analysis

In his great book *Economics in One Lesson*, Henry Hazlitt says that a good economist looks at how a policy affects all groups, not just one group. His story of the broken window is a classic.

We need to apply his "one lesson" to the free-trade debate. Yes, import relief helps the 21 highly protected sectors of the U.S. economy. It maintains thousands of American jobs in these industries. It keeps prices and wages higher than what they would be.

But what about the other groups in the economy—are they helped or hurt by import restrictions? According to the latest study by the Institute for International Economics, American consumers paid \$70 billion more for goods and services as a direct result of import protection in 1990. Now, in a \$6 trillion dollar economy, that may not seem like much. And, in fact, it demonstrates the high degree of free trade which already exists in the U.S.

Nevertheless, the consumer cost per job saved averages about \$170,000. Economists Hufbauer and Elliott conclude: "This is far higher than the average annual wage in the protected industries and far more than any current or proposed labor adjustment program would cost."<sup>1</sup>

Tariffs and quotas affect the U.S. economy in many obscure, subtle ways. For example, the voluntary import quotas on Japan resulted in a substantial increase in the importing of higher-priced, larger Japanese cars. Import limits on finished steel forced U.S. automobile companies to pay higher prices on their inputs.

Clearly, most producers benefit from tariffs and quotas, while consumers are hurt. Why don't consumers complain more loudly? Probably because of the nature of the political system. As public-choice economists demonstrate, industry and labor are much better lobbyists than consumers. Moreover, consumers are also producers and may work in protected industries as well. The protectionist story is the same everywhere, in the U.S., Japan, or Ger-

many. Everyone favors promoting exports, but not imports.

## A Better Idea

While the debate over protectionism rages on, economists and journalists should consider a far better alternative to import relief—tax and regulatory relief for domestic business. One of the primary reasons the auto, steel, and textile industries have had difficulty competing in the world economy is because they lack the capital investment to

adopt the latest technology and rebuild their markets. Imagine the impact on American industry if the corporate income tax and the capital gains tax were eliminated? If red tape and regulations were streamlined? Economic growth would be so rapid that we wouldn't even think twice about the need for "import relief" and "fair trade." □

1. Gary Clyde Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States* (Washington, D.C.: Institute for International Economics, 1994), back cover.

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**See page 570 for two new books from The Future of Freedom Foundation.**

# Free Markets, Free Men

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by John Chamberlain

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*Frederic Bastiat*

**G**eorge Roche, the head of Hillsdale College, was an early protégé of Leonard Read, the creator of The Foundation for Economic Education. Where did Read pick up this theories? They came from what Roche calls the “historical ash-heap” of Frederic Bastiat, who lived in the French countryside and in Paris in the first half of the nineteenth century.

Doing a book for Read’s Architects of Freedom series in 1973, Roche chose to call it *Frederic Bastiat: A Man Alone*. The actual fact, however, was that Bastiat had many similarly minded friends. They happened, for the most part, to be free traders in

England, such as Cobden and Bright, who brought the free trade idea to France.

The original title was rejected for a new edition with the title, *Free Markets, Free Men* (Hillsdale College Press and The Foundation for Economic Education, 1993, \$14.95 paperback), and a good thing, too. That says it all.

In his introduction, Roche justifies the book’s purposes as a reprint: the need to reinform today’s public of one of “the most intrepid explorers” of free market philosophy. Bastiat was trying to tell people that they couldn’t get something for nothing. That, obviously, has to be said again and again. □

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## The Virtue of Liberty

by Tibor R. Machan

The Foundation for Economic Education •  
1994 • 176 pages • \$19.95 cloth; \$14.95  
paperback

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Reviewed by J. E. Cheshier

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**S**ince the summer of 1990, Tibor Machan, Professor of Philosophy at Auburn University, has been lecturing throughout Europe as a Fellow for the Institute of Humane Studies. These lectures included audiences in Sweden, Poland, Czechoslovakia, Estonia, France, and his native land, Hungary. In his own words, “the main objective in

these lectures has always been to explain in plain terms . . . the ideas underlying classical liberalism.” This, in a nutshell, describes Machan’s latest book, *The Virtue of Liberty*, which grew out of those lectures.

Machan has long recognized that, while a good many intellectuals champion liberty as a political value, they do not always do so for the same reasons, or with the same understanding of the source, scope, and limits of liberty. Thus, several versions of what is often called “classical liberalism” have developed. Machan critically explores these various political viewpoints.

The book opens with a survey of major liberal/libertarian ideas found in Western thought, beginning with Xenophon from ancient Greece, moving through the Chris-

tian and Medieval era and into the modern period, with liberal ideas from Hobbes, Spinoza, Locke, Smith, Mill, and Spencer. From this century, Machan cites, among others, Mises, Hayek, the turncoat Nozick, Friedman, and, of course, Rand. Machan gives a thumbnail sketch and critique of each thinker's philosophy of liberty.

Machan then explores the question "Why do we have rights?" Here he evaluates arguments from a number of thinkers, with special attention to the views of Thomas Hobbes and John Locke. Though both champion natural rights, and both justify government as answering to certain needs of individuals not realizable in the state of nature, for Hobbes there can be no uniquely "human" rights: any living thing has a "right" to whatever it thinks conducive to survival. It follows that Hobbesian rights lack a moral dimension, and hence lack moral force. In contrast, says Machan, Locke sees human beings as beginning from a position of equality, on the basis of which our rights are derived: we ought to be treated in certain ways because of our human nature; thus, we have natural rights. Now, these rights, Machan says of Locke, are moral rights to which we are entitled, violation of which justifies our retaliating against the transgressors. Though Machan favors Locke's natural rights theory because it recognizes the moral dimension and also because, more explicitly than does Hobbes, Locke holds that the purpose of the state is to protect those rights, Machan argues that Locke's view is problematic. For one thing, Locke assumes, without proof, that human beings are by nature moral and political equals. And, given Locke's empiricist epistemology, a proof is not likely, since empiricism is skeptical about the possibility of ever knowing external reality, much less discovering the nature of things, including human nature. The subsequent dominance of empiricism in intellectual life, Machan observes, eroded support for natural rights and led to a general neglect of political philosophy, from which we continue to suffer.

Machan goes on to discuss the resurgence

of interest in political philosophy beginning with John Rawls and Robert Nozick. With Rawls, however, Machan does not find a "robust doctrine of rights" and Rawls can offer no more solid ground for political philosophy than intuition. And, though Nozick was, until his defection, a champion of individual rights, Nozick also fails to offer a proof of individual rights, resting, as does Rawls, on intuition. This chapter closes with the observation that the "concept of rights has by now lost its function as a clear guide to political justice in a free society. In the late twentieth century what are called human rights are not linked to an individualist idea of human nature . . . but to human beings conceived of as members of groups. So we have women's rights, rights of African-Americans, students, gays, workers, artists, and so forth."

Next, Machan discusses the concept of liberty, both from a metaphysical (free will) and political perspective. Here he distinguishes moral values from values in general, discusses the challenge of determinism, and shows how determinists, who deny free will, may (and often do) nonetheless support political freedom. A particularly fruitful discussion concerns the "liberty-morality" connection, where Machan discusses the possibility of defending political liberty on moral rather than on instrumental grounds.

In a separate chapter, arguments for and against private property are examined, with succinct and insightful observations about the views of Marx, Locke, Keynes, Mill, and others. Then, after clarifying the concepts of liberty and rights, and providing a framework and foundation for broader concerns, Machan discusses the relationship between morality, liberty, and the market economy. Here he observes that various moral theories are friendly to classical liberalism and free markets, but for different reasons. Since a wide disparity of viewpoints tends toward skepticism, Machan offers, as a solution, a defense of the natural rights approach for morally grounding a market economy. He argues that socialism, fascism, Communism, and other systems have been rightly faulted for being econom-

ically inefficient, but their most grievous fault is in promoting moral degradation, primarily by undermining freedom of choice. He describes the general features of moral theories, arguing that the natural rights perspective is not only the most theoretically persuasive, but that it is uniquely consistent with a market economy. In other words, a market economy is morally grounded.

From here, Machan extends his scope globally, to discuss the environmental implications of the political perspective he has been championing. He argues for a form of environmental anthropocentrism as a consistent application of classical liberalism. This discussion involves an explication and defense of the view that human beings, as individuals of a certain specifiable kind, "are of the highest value in the known universe." While other known beings have varying kinds and degrees of value, only with human beings do moral values come into existence. The implications of this for environmentalism are significant, including a justification for anthropocentrism, as well as protection of the environment.

Returning to more strictly political matters, Machan discusses the use of force by the state, distinguishing between force and coercion. He observes that governments are coercive in making people give up liberty for goals that they have neither chosen nor have a say in, or by making people work for projects that they oppose, or fight in wars that they do not support. Now, some have argued for the necessity of at least some state coercion in order for society to realize certain morally acceptable goals. Machan argues that this is a serious misconception in that morality is, at heart, a matter of volition and choice. "The basic moral support for the coercive state then is the failure to remember that morality is a system of principles serving a basic human purpose, namely, to enable human individuals to be good as human individuals. To even approach being a successful moral theory, this feature must be included within a moral system."

Machan closes with a response to the

common complaint that individualism and liberalism lead to crass hedonism, moral subjectivism, or some other morally unacceptable view. He observes how, no sooner does one form of collectivism fail than another rises from its ashes, as has the new movement of Communitarianism which preaches the dangers of individualism and its failure to promote the common good. Machan argues that there are two distinct versions of individualism, the most influential in Western liberal political thought going back to Thomas Hobbes. This version, Machan argues, is open to the charge that individualism lacks a moral base, and the shortcomings of this view tend to weaken liberalism by exposing it to precisely the objections that are in such wide currency. In contrast, Machan promotes what he calls "Classical Individualism," which provides an objective moral basis for individualism and has solid roots in the philosophy of Aristotle. Classical Individualism withstands the criticisms leveled against the radical individualism of Hobbes, and provides the necessary moral foundation for political liberty and free markets.

*The Virtue of Liberty* is bold of purpose and is as rich in content as it is brief in length. Few books say as much with twice the words, and fewer still deal with as important a theme. The vision and the principles championed in this work stand in vivid contrast to the prevailing climate of thought in nearly all of our social and political institutions. The irony is that those very institutions, indeed, democracy itself, which sprang from the idea that liberty makes for human excellence, has so lost course that freedom now has little purchase in the marketplace of ideas. This book is for the politician who may wonder whether there can be nobility in his work; for the economist who seeks a deeper understanding of human behavior than is given in non-normative models; for the student who hopes to find a ground on which to build a view of human life; for the average citizen who senses that something has been lost in our pursuit of happiness. It is something of a "handbook" for those who seek to under-

stand the relationship between liberty, morality, and social life. That a defense of liberty is necessary at all shows us the present danger of our condition. This little book is a welcome addition to the literature of freedom, and yet another reminder that the price of liberty is vigilance. □

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### **The Downing Street Years**

by Margaret Thatcher

Harper Collins Publishers • 1993 • 914 pages • \$30.00

### **The View From No. 11: Memoirs of a Tory Radical**

by Nigel Lawson

Bantam Press, London • 1993 • 1,119 pages • \$40.00

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**Reviewed by Raymond J. Keating**

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A quite startling revolution occurred in Great Britain during the years 1979 to 1990. Under the guidance of Prime Minister Margaret Thatcher, with Nigel Lawson as her Chancellor of the Exchequer from 1983 to 1989, Britain steered a course away from democratic socialism toward democratic capitalism. Or, as Lawson observed, a shift to "Thatcherism" defined as "a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, 'Victorian values' (of the Samuel Smiles self-help variety), privatization and a dash of populism."

Though more hard-nosed, free-market critics might assert that Thatcherism did not go far enough, or went astray from its fundamental principles at times—and it was most assuredly guilty on both counts—movement away from such a firmly ensconced government "dependency culture" toward an "enterprise culture" should not be underrated. This political and economic journey has been captured by its two principal and supremely self-confident navigators.

Nigel Lawson's *The View From No. 11* is a workmanlike, interesting mix of recent economic and political history, an exploration of various economic theories, and analyses of fiscal and monetary issues. In *The Downing Street Years*, Margaret Thatcher offers a sweeping account of economic and political developments from the local level in Great Britain to the international venue. By the very natures of their positions in government, one would expect greater emphasis by Lawson on economic and fiscal issues, and a more comprehensive tome—covering not only economic and budget issues, but foreign affairs, terrorism, social and cultural policies, defense issues, etc.—by Thatcher. While this is the case, fortunately for the reader Lawson does not shy away from venturing beyond the Treasury's purview, while Lady Thatcher focuses a major portion of her tome on economics.

Both Thatcher and Lawson possess relatively good instincts on economic principles and policies—especially when compared to most of their twentieth-century predecessors in Great Britain. Both, however, falter occasionally as will be the habit of politicians.

Thatcher summarizes her government's general approach on the economy: "Firm control of the money supply was necessary to bring down inflation. Cuts in public expenditure and borrowing were needed to lift the burden on the wealth-creating private sector. Lower income tax, combined with a shift from taxation on earning to taxation on spending, would increase incentives."

On the matter of industrial policy—which has had a long and dismal run in the British Isles—Thatcher simply concludes that "the fact is that in a market economy government does not—and cannot—know where jobs will come from: if it did know, all those interventionist policies for 'picking winners' and 'backing success' would not have picked losers and compounded failure."

Thatcher sums up her economic policies as follows: "All these areas—trade union power, training, housing and business regulation—were ones in which in varying degrees we made progress in strengthening the 'supply side' of the economy. But the

most important and far-reaching changes were in tax reform and privatization. Tax cuts increased incentives for the shop floor as well as the board room. Privatization shifted the balance away from the less efficient state to more efficient private business. They were the pillars on which the rest of our economic policy rested." Indeed, the most spectacular gains of Thatcherism were in these two areas.

Lawson offers detailed accounts of various British privatization efforts. He notes: "By the 1992 general election, about two thirds of the formerly State-owned industries in the UK had been transferred to the private sector. Some forty-six major businesses, employing some 900,000 people, had been privatized." As Lady Thatcher confirms, "Britain under my premiership was the first country to reverse the onward march of socialism. By the time I left office, the state-owned sector of industry had been reduced by some 60 percent."

Today, it remains easy for armchair economists to declare that more should have been done by Thatcher in the privatization area. However, they fail to appreciate the political difficulties involved. Lawson states: "In advance of every significant privatization, public opinion was invariably hostile to the idea, and there was no way it could be won round except by the Government going ahead and doing it." As any great leader does, Thatcher moved ahead on privatization based on her principles and was proven correct. This type of action remains scarce among poll-reading politicians.

On the matter of taxes, the Thatcher-Lawson record, though not unblemished, must be commended for its fundamental achievements. Capital gains taxes were indexed for inflation. And as Lawson notes: "Between 1979 and 1989 [Exchequer predecessor] Geoffrey Howe and I between us reduced the top rate of tax on earned income from 83 to 40 percent, and the top rate on savings income from an even more ludicrous figure of 98 percent to 40 percent."

Areas where these two politicians' otherwise sound economic views faltered—such as succumbing to the "overheating" myth of economic growth and inflation, often irrelevant concerns regarding trade deficits, and convoluted excuses to raise some taxes—tend to stand out against the backdrop of generally positive achievements. Also, a fundamental disagreement between Lawson and Thatcher over international monetary theory damaged the Thatcher government, the British economy, and led to Lawson's resignation. Both books fully explore this rift, as one might expect, from their own passionate perspectives. In many ways, this disagreement is a microcosm of some fundamental monetary differences among market-oriented economists—fixed versus floating exchange rates. Lady Thatcher made the case for free-floating exchange rates, while Lawson pushed for maintaining targeted exchange rates. Unfortunately, neither Thatcher nor Lawson considered gold as a viable monetary standard. Lawson's fixed exchange rates particularly suffered from the absence of an anchor such as gold.

As for the economic future of Great Britain, Lawson correctly calls for more Thatcherism: "More privatization, more tax reform, and a firm grip on public spending." As for whether or not Thatcher's successor, John Major, believes the same is, to say the least, an open question.

Both *The Downing Street Years* and *The View From No. 11* provide valuable insights into British economics and politics of the past 15 years. Thatcher's book is more readable, though Lawson's adds detail to many economic issues. At a combined total count of over 2,000 pages, reading both books is a hefty undertaking. Obviously, each readily stands on its own. But for those wishing to gain a better understanding of the Thatcher revolution, the benefits of reading both even outweigh the size of these tomes. □

*Mr. Keating is Director of New York Citizens for a Sound Economy.*

## Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream

by Peter G. Peterson

Simon & Schuster • 1993 • 411 pages • \$22.00

Reviewed by John Attarian

**T**hough our national debt keeps soaring, efforts to face it honestly are rare. Peter Peterson's *Facing Up* is one of the few. Founder of the deficit-fighting Concord Coalition, Peterson confronts the problem and offers a plan for budget balance by the year 2000.

Spurning glib "explanations" of our deficit problem—the defense buildup; poverty programs; failure to cut taxes further—Peterson shows that the real culprit is out-of-control "entitlement" programs providing generous Social Security, Medicare, and other benefits to almost everyone. Entitlements accounted for about \$800 billion in fiscal 1993, or 53.5 percent of the budget. Moreover, the bulk of projected future spending is for entitlements. "The budget arithmetic is inescapable: We just can't get the spending cuts we need from anywhere but entitlements."

To support this argument, Peterson gives a splendidly thorough account of the entitlement state's metastasis and our transformation from a responsible, thrifty society to a "choiceless society" fecklessly evading hard tradeoffs. He coolly explodes such pernicious myths as: Most entitlement spending is for the poor (in fact, most benefits the middle class); Social Security and Medicare only give beneficiaries their contributions back (most receive far more than they paid); and Social Security's huge surplus will pay the benefits promised to Baby Boomers (the "surplus" consists of government debt for which future taxpayers will be liable).

*Facing Up* is a wide-ranging and badly needed education in economic and budgetary realities. The "Visual Guide" of charts depicting our stagnating living standards,

deficient investment, plunge into debt, and entitlement explosion more vividly illuminates our predicament. Financing our huge entitlement-driven deficits is absorbing more and more of our savings, draining the pool of money available for investment to raise output and productivity and maintain living standards. Thus, while entitlement commitments soar—total unfunded benefit liabilities as of 1991 were \$14.4 trillion—our ability to pay them is falling. Ultimately, our evasion of reality threatens our way of life.

As our denial is bipartisan, so is Peterson's wrath. He trounces Ronald Reagan for "the pseudosacrificial chopping away at the means-tested and investment corners of the federal budget; the silent approval of the vast increase in 'middle-class' entitlements; and, above all, the unwillingness to take the ominous deficit issue directly to the public." Bill Clinton, too, "squander[ed] a great opportunity" with inadequate deficit reduction proposals; after alarmist rhetoric "all he was able to give us to cure our economy's ills were a few teaspoons of syrupy medicine."

Demanding that we face up, Peterson courageously drives home the unlovely truth that "we are *all* on welfare of one kind or another . . . *all of us* have decided that we are *entitled* to much more than our society can afford to pay for." "*Most Americans—emphatically including the middle class—will have to give something up, at least temporarily, to get back our American Dream.*" (his italics)

Hence he rightly rejects budgetary book-cooking and is dubious about a balanced-budget amendment. He prescribes increased high-income, liquor, cigarette, and gasoline taxes, plus a five-percent consumption tax, in return for further defense cuts, more public-sector investment, and a ten-percent real cut in domestic discretionary spending. Peterson would also increase the taxability of most entitlements, trim others, and most important, apply a highly progressive means test to cut entitlements for above-median-income beneficiaries. These proposals have the merit of honestly administering necessary, unpleasant medicine, but unfortunately have many problems.

Taxes have already been raised repeatedly, to little avail—because spending cuts promised in return never came. With such a fiscally perfidious Congress, this is not a safe bargain to strike.

The means test does what must be done: perform the lion's share of the entitlement carvery on the middle class. But given his own account of the problem, it's not enough. We should eliminate entitlements to all above the poverty line except federal retirees and veterans with service-related injuries, and gradually replace them with private alternatives below it. This would produce bigger surpluses faster.

Peterson's proposals to raise the Social Security retirement age and benefit taxability are sensible, but inadequate. Even if per capita benefits are trimmed, the retiring Baby Boomer generation would still swamp Social Security by sheer numbers. Given our aging population, Social Security is doomed.

Similarly, Peterson's proposal to cut farm supports is a step in the right direction, but we'd do better to abolish them.

Unfortunately, Peterson advocates expanding the entitlement state with universal basic health care coverage. In a glaring contradiction, he deplores the entitlement mentality, yet concurs with Henry Aaron's assertion that universal access to health care is "a standard perquisite of citizenship in modern developed nations." Since when?

The affluence test, higher taxes, and expanded low-income benefits risk creating perverse incentives for middle-class people to hide their wealth to protect their entitlements. This is not farfetched; grown middle-class children are already reallocating their parents' wealth to artificially impoverish them so they can qualify for Medicaid.

But most important, while a balanced budget or small surplus by 2000 is a laudable goal, it is not enough. Even if we reach it, we would *still* have a national debt exceeding \$5 trillion, and its interest cost would be staggering. Rather, we must slash the debt by running surpluses the size of our recent deficits.

That, however, would entail facing up to things which not even the sturdy Peterson

admits: that entitlements are not merely out of hand but inherently untenable; that national bankruptcy is inevitable when the government is charged with protecting us from life; and that for sound finance to be restored, the entitlement state must be not reformed but demolished.

But though there is much to dissent from, Peterson has served America nobly. Educating the country is crucial to solving the problem, and *Facing Up* is a huge stride to the budgetary blackboard. □

*Dr. Attarian is a free-lance writer in Ann Arbor, Michigan.*

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### **American Democracy: Aspects of Practical Liberalism**

by Gottfried Dietze

Johns Hopkins University Press • 303 pages • \$39.95

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Reviewed by William H. Peterson

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"**T**he Anglo-American relies upon personal interest to accomplish his ends, and gives free scope to the unguided exertions and common sense of the citizens; the Russian centers all the authority of society in a single arm: the principal instrument of the former is freedom; of the latter servitude. Their starting point is different, and their courses are not the same; yet each of them seems to be marked out by the will of Heaven to sway the destinies of half the globe."

So wrote Alexis de Tocqueville in 1835 in *Democracy in America* and German-born political scientist Gottfried Dietze of Johns Hopkins University hails the prescience of the young French visitor here who spotted two "unnoticed" powers and two ways of governance long before the rise and fall of the Soviet Union and the passage of such broad interventions in America as the New Freedom, New Deal, New Frontier, and now President Clinton's "New Generation." Yes, Eurocommunism and the Soviet Union are gone, but a kind of Russification of Japan

and the West seems to push on. The issue is still Tocqueville's freedom vs. servitude.

Dr. Dietze also hails The Foundation for Economic Education for defending freedom and free enterprise, and notes that Ronald Reagan has read *The Freeman*, and quotes approvingly from President Reagan's first inaugural address the lines: "You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by the same limitation?"

Dietze builds his latest work around the momentous Tocqueville work to see how democratic institutions have fared in the century and a half since its publication. He is not especially hopeful but concedes America's future is too murky to be sure. (A note to the American reader: Professor Dietze uses the word "liberalism" here in its European, nineteenth-century sense as a variant on liberty.)

He holds that constitutional limitations on government are being dissipated—through, among other things, U.S. Supreme Court decisions. This dissipation may be at the heart of America's troubles today, and can be inferred from Professor Dietze's book of more than twenty years ago, *America's Political Dilemma: From Limited to Unlimited Democracy*.

As he notes, "Rights through Riots" seems to have been replaced by "Riots through Rights." Professor Dietze writes: "It often appeared to me that people were on the way from free government to government-free, to the freedom from any kind of rule, to anarchy."

How remarkable—the incongruity of an-

archy and interventionism, when government taxes and intrusions into peaceful private activity have rarely been greater, when the U.S. government may be ready to yet assume one-seventh of the Gross Domestic Product (GDP) in the name of universal health care.

So questions arise from a reading of the provocative Dietze work: Is spreading government or the Russification of society the answer to America's ills—to the rise of violent crime in America, for example? Is it seen in the rage for "victimology," in the idea that "I'm a victim, you're a victim," in a corresponding flight from self-responsibility, from personal morality, in a new order that has become increasingly disorder? What's going on? Dietze quotes Yeats:

*Things fall apart; the center cannot hold;  
Mere anarchy is loosed upon the world.*

Freedom is insufficient, says the author, citing the works of Thomas Hobbes, John Locke, Jean Jacques Rousseau, and Edmund Burke. He condemns what he calls "pure liberalism, or the unrestricted quest for ever more freedom," on the part of individual citizens and elected officials. He wonders if the course of American democracy does not contain the seeds of its own decline.

Gottfried Dietze has a point: Tocqueville's liberty and equality are not enough. A return to moral and ethical imperatives is also in order, says this contemporary thinker in this thoughtful work. □

*Dr. Peterson, a contributing editor of The Freeman, is an adjunct scholar at the Heritage Foundation. He is completing a book on political economy.*

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*future generations by consuming the capital that took generations to accumulate. Minimum wages that deny employment to the unskilled, socialization of schools which smothers diversity and discourages innovation, rent control that consumes housing, extortion through transfer payments and stifling regulation of markets are all man's political attempts to repeal the natural laws of economics and sociology, and thus of nature. The familiar results are crumbling buildings and rotting railroads, bored and uneducated students, reduced capital investment, reduced production, inflation, stagnation, unemployment and ultimately widespread resentment and unrest. Institutionalized policies such as these create increasing instability and have the power to turn a nation of conscientious producers into a private sector of impatient gamblers and a public sector of unprincipled plunderers. When the fifth wave of the fifth wave tops out, we need not ask why it has done so. Reality, again, will be forced upon us. When the producers who are leached upon disappear or are consumed, the leeches who remain will have lost their life support system, and the laws of nature will have to be patiently re-learned.*

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